

DOCKET



SUPREME COURT

OF THE UNITED STATES

No. 11-1118

Title: Jerry W. Gunn, et al., Petitioners
v.
Vernon F. Minton

Docketed: March 13, 2012
Lower Ct: Supreme Court of Texas
Case Nos.: (10-0141)
Decision Date: December 16, 2011

Questions Presented

~~~Date~~~ ~~~~~Proceedings and Orders~~~~~

Mar 9 2012 Petition for a writ of certiorari filed. (Response due April 12, 2012)  
Mar 23 2012 Waiver of right of respondent Vernon F. Minton to respond filed.  
Mar 30 2012 Supplemental brief of petitioners Jerry W. Gunn, et al. filed.  
Apr 4 2012 DISTRIBUTED for Conference of April 20, 2012.  
Apr 12 2012 Response Requested. (Due May 12, 2012)  
May 9 2012 Order extending time to file response to petition to and including June 13, 2012.  
Jun 13 2012 Brief of respondent Vernon F. Minton in opposition filed.  
Jun 21 2012 Reply of petitioners Jerry W. Gunn, et al. filed.  
Jun 27 2012 DISTRIBUTED for Conference of September 24, 2012.  
Sep 12 2012 DISTRIBUTED for Conference of October 5, 2012.  
Sep 13 2012 Supplemental brief of respondent Vernon F. Minton filed. (Distributed)  
Oct 5 2012 Petition GRANTED.  
Oct 31 2012 SET FOR ARGUMENT ON Wednesday, January 16, 2013.  
Nov 19 2012 Joint appendix filed (1 volume and 1 supplemental volume). (Statement of costs filed)  
Nov 19 2012 Brief of petitioners Jerry W. Gunn, et al. filed.  
Nov 26 2012 Brief amicus curiae of Ronald E. Mallen filed.  
Nov 26 2012 Brief amicus curiae of Law Professors filed. (Distributed)  
Nov 26 2012 Brief amicus curiae of American Intellectual Property Law Association filed. (Distributed)  
Nov 27 2012 CIRCULATED  
Dec 14 2012 Record received from Supreme Court of Texas is electronic.  
Dec 19 2012 Brief of respondent Vernon F. Minton filed. (Distributed)  
Dec 21 2012 Brief amicus curiae of Wood, Herron & Evans, LLP filed. (Distributed)  
Dec 26 2012 Brief amici curiae of Los Alamos National Security, LLC, et al. filed. (Distributed)  
Dec 26 2012 Brief amicus curiae of Intellectual Property Law Association of Chicago filed.

(Distributed)

Jan 7 2013 Reply of petitioners Jerry W. Gunn, et al. filed. (Distributed)

Jan 16 2013 Argued. For petitioners: Jane Webre, Austin, Tex. For respondent: Thomas M. Michel, Fort Worth, Tex.

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**PETITION  
FOR  
WRIT OF  
CERTIORARI**

**In The  
Supreme Court of the United States**

JERRY W. GUNN, INDIVIDUALLY, WILLIAMS SQUIRE  
& WREN, L.L.P., JAMES E. WREN, INDIVIDUALLY,  
SLUSSER & FROST, L.L.P., WILLIAM C. SLUSSER,  
INDIVIDUALLY, SLUSSER WILSON & PARTRIDGE,  
L.L.P., AND MICHAEL E. WILSON, INDIVIDUALLY,

*Petitioners,*

v.

VERNON F. MINTON,

*Respondent.*

**On Petition For A Writ Of Certiorari  
To The Supreme Court Of Texas**

**PETITION FOR A WRIT OF CERTIORARI**

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## QUESTIONS PRESENTED

Did the Federal Circuit depart from the standard this Court articulated in *Grable & Sons Metal Products, Inc. v. Darue Eng'g & Mfg.*, 545 U.S. 308 (2005), for “arising under” jurisdiction of the federal courts under 28 U.S.C. § 1338, when it held that state law legal malpractice claims against trial lawyers for their handling of underlying patent matters come within the exclusive jurisdiction of the federal courts? Because the Federal Circuit has exclusive jurisdiction over appeals involving patents, are state courts and federal courts strictly following the Federal Circuit’s mistaken standard, thereby magnifying its jurisdictional error and sweeping broad swaths of state law claims – which involve no actual patents and have no impact on actual patent rights – into the federal courts?

## **PARTIES TO THE PROCEEDING BELOW**

Petitioners, the Defendants below, are Jerry W. Gunn, James E. Wren, Williams Squire & Wren, L.L.P., William C. Slusser, Slusser & Frost, L.L.P., Michael E. Wilson, and Slusser Wilson & Partridge, L.L.P. (together, the "Lawyer Defendants"); and

Respondent, the Plaintiff below, is Vernon Minton.

## **RULE 29.6 STATEMENT**

Pursuant to Rule 29.6 of the Supreme Court Rules, the Lawyer Defendants make this Disclosure of Corporate Affiliations and Corporate Interest:

The Lawyer Defendants have no parent corporation, and there are no publicly held corporations that own 10% or more of their stock.

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## OPINIONS BELOW

The majority and dissenting opinions of the Supreme Court of Texas (App. 1-26 and App. 27-45) are reported at *Minton v. Gunn*, 355 S.W.3d 634 (Tex. 2011). The opinion of the Court of Appeals for the Second District of Texas (App. 46-94) is reported at *Minton v. Gunn*, 301 S.W.3d 702 (Tex. App. – Fort Worth 2009), *reversed*, 355 S.W.3d 634 (Tex. 2011). The Court of Appeals' per curiam order denying rehearing en banc (App. 95-96) is not reported.

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## STATEMENT OF JURISDICTION

The Supreme Court of Texas rendered its judgment on December 16, 2011. (App. 26) This Court has jurisdiction over this appeal pursuant to 28 U.S.C. § 1257(a).

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## STATUTORY PROVISIONS INVOLVED

At issue in this appeal is the “arising under” jurisdiction of the federal courts pursuant to 28 U.S.C. § 1338:

(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.



(b) The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent, plant variety protection or trademark laws.

(c) Subsections (a) and (b) apply to exclusive rights in mask works under chapter 9 of title 17, and to exclusive rights in designs under chapter 13 of title 17, to the same extent as such subsections apply to copyrights.

28 U.S.C. § 1338.

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### STATEMENT OF THE CASE

On August 25, 2004, Minton filed this legal malpractice suit in Texas state court against the Lawyer Defendants. The Lawyer Defendants are attorneys who represented Minton in an underlying patent infringement action in federal court against the National Association of Securities Dealers, Inc. (NASD) (the Patent Litigation). The district court in the Patent Litigation granted summary judgment against Minton on the basis of the on sale bar, because the technology that formed the basis of his patent was the subject of a commercial lease more than a year before Minton applied for the patent. *Minton v. Nat'l Ass'n of Sec. Dealers, Inc.*, 226 F. Supp. 2d 845, 852 (E.D. Tex. 2002). Following the summary judgment, Minton asked his attorneys to raise a new defense: that the experimental use

doctrine negated the on sale bar. A motion for reconsideration was filed on Minton's behalf, with the experimental use issue briefed by new counsel; the district court denied reconsideration. Minton appealed, and the Federal Circuit affirmed the district court's judgment. *Minton v. Nat'l Ass'n of Sec. Dealers, Inc.*, 336 F.3d 1373, 1379 (Fed. Cir. 2003).

In this subsequent legal malpractice suit, Minton alleged that the Lawyer Defendants' negligence caused him to lose the Patent Litigation or, alternatively, caused the Patent Litigation's pretrial dismissal, depriving him of the possibility of settlement. The Lawyer Defendants filed motions for summary judgment challenging the causation element of Minton's malpractice claim, arguing that the experimental use exception did not apply to the commercial lease at issue so their alleged failure to timely plead and brief the exception could not have caused Minton harm in the Patent Litigation. The trial court granted the summary judgment motions and rendered a take-nothing judgment on all Minton's legal malpractice claims against the Lawyer Defendants.

Minton appealed the summary judgment to the Court of Appeals for the Second District of Texas. While that appeal was pending, the Federal Circuit decided two cases holding that federal courts have exclusive jurisdiction over all legal malpractice suits involving underlying patent matters: *Air Measurement Tech., Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 504 F.3d 1262 (Fed. Cir. 2007) and *Immunocept, L.L.C. v. Fulbright & Jaworski, L.L.P.*, 504 F.3d



1281 (Fed. Cir. 2007). Based on those two cases, Minton argued for the first time that the legal malpractice claims he filed (and lost) in state court were actually within the exclusive jurisdiction of the federal courts.

The court of appeals rejected the broad jurisdictional reach articulated by the Federal Circuit in *Air Measurement* and *Immunocept* and held that Minton's state law malpractice claims do not come within the federal courts' "arising under" jurisdiction. App. 46-94. The court instead applied the standard for analyzing "arising under" jurisdiction that this Court articulated in *Grable & Sons Metal Products, Inc. v. Darue Eng'g & Mfg.*, 545 U.S. 308 (2005), and expressly declined to follow the different standard the Federal Circuit applied in *Air Measurement* and *Immunocept*. App. 58-61. After determining that Minton's claims belong in state court, the court of appeals affirmed on the merits the summary judgment as to Minton's legal malpractice claims. App. 64-73.

Minton then appealed the case to the Supreme Court of Texas. The Court split 5-3, with the majority strictly following the Federal Circuit in *Air Measurement* and *Immunocept* and holding that Minton's claims come within the exclusive jurisdiction of the federal courts. *Minton v. Gunn*, 355 S.W.3d 634 (Tex. 2011); App. 1-26. The dissent concluded that Minton's claims did not meet the standard for "arising under" jurisdiction announced by this Court in *Grable*. App. 27-45. The dissent noted that this Court cautioned

against an overly broad construct of “arising under” jurisdiction, which “would have attracted a horde of original filings and removal cases raising other state claims with embedded federal issues.” App. 40. The dissent concluded that the “Supreme Court’s fears have already been realized” in subsequent cases applying the Federal Circuit’s broad construct of “arising under” jurisdiction. App. 41.

The Supreme Court of Texas vacated the summary judgment below and dismissed Minton’s claims for want of jurisdiction. App. 26. Minton has since refiled his legal malpractice claims against the Lawyer Defendants from scratch in federal court: Case No. 6:12-cv-000291; *Vernon F. Minton v. Jerry W. Gunn, et al.*; in the United States District Court for the Eastern District of Texas, Tyler Division.



## REASONS THE WRIT SHOULD BE GRANTED

This Court in *Grable & Sons Metal Products, Inc. v. Darue Eng’g & Mfg.*, 545 U.S. 308 (2005), articulated a standard for “arising under” jurisdiction over state law claims with embedded federal issues that is careful, narrowly drawn, and rejects the notion that “mere need to apply federal law in a state-law claim will suffice to open the ‘arising under’ door.” *Id.* at 313. It is not enough that the state claims contain an embedded federal issue; the federal issue must be “actually disputed and substantial,” and it must be one that the federal courts can entertain without

disturbing the balance between federal and state judicial responsibility. *Id.* at 314.

The Federal Circuit departed markedly from that standard in *Air Measurement Tech., Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 504 F.3d 1262 (Fed. Cir. 2007), and in *Immunocept, L.L.C. v. Fulbright & Jaworski, L.L.P.*, 504 F.3d 1281 (Fed. Cir. 2007). The Federal Circuit redefined the requirement that the federal issue be disputed and substantial by holding that the federal issue merely needs to be a “necessary element.” *Air Measurement*, 504 F.3d at 1269. It also wholly failed to consider the “balance of federal and state judicial responsibilities,” though the *Grable* Court held that consideration of federalism is not only required but acts as a “possible veto” of federal court jurisdiction even when there is a substantial federal issue at stake. *Grable*, 545 U.S. at 313.

The Supreme Court of Texas strictly followed the Federal Circuit’s reformulated standard and held that Minton’s state law legal malpractice claims come within the federal courts’ exclusive “arising under” jurisdiction. App. 24-26. Like the Federal Circuit, the majority of the Texas Court held that the federal issue was “disputed and substantial” simply because it exists as an element of causation for the state claims. App. 16-17. The dissent criticized the majority’s decision to follow the Federal Circuit in marginalizing the federalism inquiry, because “the Federal Circuit has not remained faithful to the Supreme Court’s federalism inquiry in the context of legal

malpractice decisions arising from patent cases.” App. 38.

The Supreme Court of Texas’ opinion in this case thus carries forward the Federal Circuit’s departure from the standard in *Grable*, and it is not alone. In the five years since the Federal Circuit decided *Air Measurement* and *Immunocept*, many state and federal courts have analyzed the issue of federal court jurisdiction over state law legal malpractice actions arising out of patent matters. Some, including California state courts, have strictly followed the Federal Circuit standard and found federal court jurisdiction. Others, like the Nebraska Supreme Court, applied the *Grable* standard and found state court jurisdiction under virtually identical facts. Conflicting results from the conflicting standards abound among the federal courts as well; indeed, two panels of the Fifth Circuit have reached opposite conclusions regarding application of the Federal Circuit standard.

The Federal Circuit’s overbroad determination of federal court jurisdiction has far-reaching consequences for the balance between state and federal courts’ jurisdiction over legal malpractice cases, which are – and have always been – a creature of state law and involve important standards of attorney conduct. The Federal Circuit standard would cast the net of federal jurisdiction over every legal malpractice case where the underlying case or matter involves an issue requiring application of federal law, despite the fact that the professional conduct of attorneys is regulated by the states and implicates

substantial state interests. And because the Federal Circuit has exclusive jurisdiction over true patent appeals, many state and federal courts – like the Texas Court here – will continue to follow strictly the Federal Circuit standard and compound that court’s original error.

This jurisdiction issue is not going away: the conflict between the Federal Circuit standard and this Court’s standard articulated in *Grable* has already been presented to this Court twice on petition for a writ of certiorari. *Davis v. Brouse McDowell, L.P.A.*, 596 F.3d 1355 (Fed. Cir. 2010), *cert. denied*, 131 S.Ct. 118 (2010); *Landmark Screens, LLC v. Morgan, Lewis, Bockius, LLP*, 107 Cal. Rptr. 3d 373, 183 Cal. App. 4th 238 (Cal. Ct. App. 2010), *cert. denied*, 131 S.Ct. 1472 (2011). This Court should therefore take this opportunity to address an important and recurring problem.

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## ARGUMENT

### **A. The standard for “arising under” jurisdiction requires both a substantial issue of federal law and due regard for the balance between state and federal courts.**

The federal courts have jurisdiction over any civil action arising under any Act of Congress relating to patents. 28 U.S.C. § 1338. The “arising under” provision for federal patent law follows the same interpretation as the identical “arising under” language in the



general federal question provision of 28 U.S.C. § 1331. *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 808 (1988). “Arising under” jurisdiction includes cases in which “the vindication of a right under state law necessarily turn[s] on some construction of federal law.” *Franchise Tax Bd. v. Constr. Laborers Vacation Trust*, 463 U.S. 1, 9 (1983). “The question is, does a state-law claim necessarily raise a stated federal issue, actually disputed and substantial, which a federal forum may entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities.” *Grable & Sons Metal Prods, Inc. v. Darue Eng’g & Mfg.*, 545 U.S. 308, 314 (2005).

As the dissent in the Texas Court noted below, *Grable* “is a landmark case in this area of jurisprudence, and it should be the touchstone for any court’s analysis of whether embedded question jurisdiction is proper.” App. 32 (citing Charles Alan Wright et al., *FEDERAL PRACTICE AND PROCEDURE* § 3562 at 197-99 (3d ed. 2008) (“In 2005, the Supreme Court issued its finest effort in this line of cases. . . . In *Grable*, the Court for the first time discussed comprehensively the relevant factors for assessing [embedded question jurisdiction]. . . . *Grable* brings considerable clarity to what had been quite muddled.”)). “Jurisdictional rules should be clear.” *Grable*, 545 U.S. at 321 (Thomas, J., concurring). The issue in this appeal is whether the Federal Circuit – and the Texas Court strictly following it – has improperly deviated from

the *Grable* standard and created real uncertainty regarding “arising under” jurisdiction.

Under the *Grable* standard, federal question jurisdiction exists only if a state law claim necessarily raises an embedded federal issue, and the federal issue is actually disputed and substantial. In addition, even if there is a disputed and substantial federal issue present (step one), federal jurisdiction will be found only if it is consistent with congressional judgment about the sound division of labor between state and federal courts (step two). *Grable*, 545 U.S. at 313-314. “There *must always* be an assessment of any disruptive portent in exercising federal jurisdiction.” *Grable*, 545 U.S. at 314 (emphasis added). Consideration of federalism is thus a separate, independent component of “arising under” jurisdiction.

The Federal Circuit standard departs markedly from the *Grable* standard in that it discards both the requirement that the federal issue be disputed and substantial and the balance of state and federal interests.

**1. The Federal Circuit standard dispenses with the requirement that the embedded federal issue be disputed and substantial.**

This Court has restricted “arising under” jurisdiction to those cases in which there is a disputed and substantial federal issue, “indicating a serious federal

interest in claiming the advantages thought to be inherent in a federal forum.” *Grable*, 545 U.S. at 312-313. The Federal Circuit standard departs from the *Grable* standard and writes the “disputed and substantial” elements out of the jurisdictional analysis.

The requirement that the federal issue be disputed is a meaningful one, and it turns on the substance of the federal issue, not on the bare fact that the issue exists. A review of the roots of the element makes clear that for the federal issue to be “disputed” under *Grable*, there must be a controversy as to the “‘validity, construction, or effect’” of the federal issue. *Grable*, 545 U.S. at 315 n.3 (quoting *Shulthis v. McDougal*, 225 U.S. 561, 570 (1912)). The *Grable* Court noted “the limiting effect of the requirement that the federal issue in a state-law claim must actually be in dispute to justify federal question jurisdiction,” and cited *Shulthis* as an example where “this Court found that there was no federal-question jurisdiction to hear a plaintiff’s [state law] claim in part because the federal statutes on which [the claim] depended were not subject to ‘any controversy respecting their validity, construction, or effect.’” *Id.* (quoting *Shulthis*, 225 U.S. at 570). *Grable* thus sets a meaningful bar for a federal issue to be “disputed.”

The Court most recently applied the *Grable* standard in *Empire Healthchoice Assurance, Inc. v. McVeigh*, 547 U.S. 677 (2006), and that case illustrates the difference between a mere federal issue and a *substantial* federal issue. The issue was whether a claim for reimbursement by a health insurance



carrier for federal employees arises under the Federal Employees Health Benefits Act (FEHBA). The claims arose from a beneficiary's state court litigation against third parties alleged to have caused the beneficiary's injuries. When the suit settled, the FEHBA carrier sued in federal court for reimbursement of the amount it had previously paid for the beneficiary's medical care. Holding that there was no "arising under" jurisdiction, the Court found the circumstances of the *Empire* case to be "poles apart" from its earlier opinion in *Grable*. 547 U.S. at 700. *Grable* involved the notice standards of a federal statute, the standard for notice was unresolved in the case law, and its resolution was dispositive of the case and would be controlling in other cases. *Empire*, 547 U.S. at 699-700; *Grable*, 545 U.S. at 315-316. In contrast, the claim in *Empire* was fact based, unlike the pure question of federal law presented in *Grable*. *Empire*, 547 U.S. at 700-701. The *Grable* Court held that the federal issue in that case was disputed (and thus "arising under" jurisdiction existed), while the *Empire* Court concluded that the federal issue before it was not substantial (and thus there was no "arising under" jurisdiction). Neither case turned on the mere existence of a federal issue; rather, the "disputed" and "substantial" nature of the federal issues in those cases controlled whether federal jurisdiction existed.

By contrast, the Federal Circuit standard ignores the disputed and substantial requirements. As a threshold matter, determination of the legal malpractice claims involves only a hypothetical determination

of patent infringement. No actual patent rights are ever adjudicated in such cases. Here, the validity of Minton's patent was determined in the underlying Patent Litigation against NASD, and nothing in the legal malpractice case could change that. In that context, the Federal Circuit standard does not consider whether the relevant federal patent law is disputed or unsettled in any way, or how resolution of the hypothetical patent issue presented would involve anything other than a case-specific application of facts to undisputed law.

The Federal Circuit standard improperly conflates a dispute regarding federal law (such as that at issue in *Grable*) with a dispute over application of the facts to undisputed federal law. In assessing whether the federal issue in *Air Measurement* was disputed and substantial, the Federal Circuit stated summarily that "patent infringement is disputed, for there is no concession by Akin Gump that the prior SCBA litigants infringed Air Measurement's patents, and the issue is substantial, for it is a necessary element of the malpractice case." *Air Measurement*, 504 F.3d at 1272. Under that construct, there is a disputed federal issue because the parties dispute whether infringement occurred in the underlying case. The Federal Circuit thus writes the "disputed and substantial" requirement out of the *Grable* standard and adopts a new standard, contrary to *Grable*, where "the mere need to apply federal law in a state-law claim will suffice to open the 'arising under' door." *Grable*, 545 U.S. at 313.

## **2. The Federal Circuit standard also dispenses with the federalism analysis.**

Even if there is a contested, substantial federal issue embedded in a state claim, "arising under" jurisdiction is proper *"only if federal jurisdiction is consistent with congressional judgment about the sound division of labor between state and federal courts governing the application of § 1331."* *Grable*, 545 U.S. at 313-314 (emphasis added). The Federal Circuit standard wholly fails to analyze the balance of state and federal interests; indeed, it recognizes no state interests at all. The Federal Circuit simply announced that there is a strong federal interest in adjudicating patent infringement claims, and that was the end of the federalism inquiry. *Air Measurement*, 504 F.3d at 1272. The Texas Court strictly followed the Federal Circuit standard and likewise failed to consider any state interest. App. 24 ("We agree with the Federal Circuit. . .").

The Federal Circuit standard thus overstates the federal interest, which is marginal because only hypothetical patent infringement, not actual patent infringement, is decided in legal malpractice cases. The dissent in the Texas Court noted that the federal issue "is collateral, not basic. This is a legal malpractice case, litigated after final judgment in the original, federal case. Resolution of the malpractice claim in question does not impact any live patent law claims. Moreover, it is unlikely that the legal malpractice opinions of Texas courts will in any way disrupt the uniformity of patent law that Congress

sought by enacting section 1338; on the merits of actual patent lawsuits, federal courts will no doubt look first to federal patent precedents, not Texas legal malpractice cases." App. 38 (citations omitted).

The Federal Circuit standard also ignores the very real interest the states have in regulating their lawyers. The dissent in the Texas Court explained that the state interest deserves precedence, because "we should not risk the confusion and inconsistency that will result from having two sets of binding precedent in Texas legal malpractice law – one stemming from this Court and the other courts of this state, and another, entirely outside of our control after today's opinion, developing under the direction of the Federal Circuit, largely uninformed by the deep roots of Texas jurisprudence and the requirements of the Texas Constitution." App. 45.

Texas state courts often decide significant issues involving the conduct of lawyers in the context of legal malpractice cases. *See, e.g., Burrow v. Arce*, 997 S.W.2d 229, 245-246 (Tex. 1999) (allowing fee forfeiture from attorneys for certain breaches of fiduciary duty and defining procedures); *Barcelo v. Elliott*, 923 S.W.2d 575, 577 (Tex. 1996) (establishing privity requirements for legal malpractice claims); *Akin, Gump, Strauss, Hauer & Feld, L.L.P. v. Nat'l Dev. and Research Corp.*, 299 S.W.3d 106, 113-114 (Tex. 2009) (defining when attorneys' fees can be recovered as damages for legal malpractice). Under the Federal Circuit standard, such significant state issues could easily be swept into federal court.

The Federal Circuit's broad sweep of legal malpractice cases into federal court with no federalism analysis has been widely criticized precisely because such cases implicate important state interests in the regulation of lawyer conduct. *See, e.g., Singh v. Duane Morris, L.L.P.*, 538 F.3d 334, 340 (5th Cir. 2008). ("Not only is the federal interest insubstantial, but federal jurisdiction over this state-law malpractice claim would upend the balance between federal and state judicial responsibilities. . . . Legal malpractice has traditionally been the domain of state law, and federal law rarely interferes with the power of state authorities to regulate the practice of law."); *Danner, Inc. v. Foley & Lardner, L.L.P.*, 2010 WL 2608294 at \*3, 4 (D. Or. June 23, 2010) ("just because an element that is essential to a particular theory might be governed by federal patent law does not mean that the entire claim 'arises under' patent law" and "a contrary interpretation risks sweeping all legal malpractice cases involving a federal matter into federal court, despite the fact that legal malpractice is an area of law traditionally handled by the states"); *Warrior Sports, Inc. v. Dickinson Wright, PLLC*, 666 F. Supp. 2d 749, 751 (E.D. Mich. 2009), *reversed*, 631 F.3d 1367 (Fed. Cir. 2011) (noting that the court "cannot see how it may adjudicate this case without disturbing the congressionally approved balance of federal and state judicial responsibilities," because using "Michigan's case-within-a-case analytical framework to sweep an entire class of state-law claims into federal law's preemptive reach would



unavoidably result in a case of the tail wagging the dog”).

By dispensing entirely with the federalism inquiry, the Federal Circuit standard thus ignores the “long-settled understanding that the mere presence of a federal issue in a state cause of action does not automatically confer federal-question jurisdiction.” *Merrell Dow Pharms., Inc. v. Thompson*, 478 U.S. 804, 813 (1986). It also ignores the principle that “the presence of a disputed federal issue is never necessarily dispositive.” *Grable*, 545 U.S. at 314. Instead of making the careful judgments about federal jurisdiction that section 1338 analysis requires, the Federal Circuit standard decides the issue on the bare fact that the underlying matter involves a patent, and for that reason there is “simply no good reason to deny federal jurisdiction.” *Air Measurement*, 504 F.3d at 1269.

In cases decided since *Air Measurement* and *Immunocept*, the Federal Circuit has distanced itself even farther from *Grable*’s required federalism analysis. Both *Davis v. Brouse McDowell, L.P.A.*, 596 F.3d 1355 (Fed. Cir. 2010), *cert. denied*, 131 S.Ct. 118 (2010), and *Warrior Sports, Inc. v. Dickinson Wright, PLLC*, 631 F.3d 1367 (Fed. Cir. 2011), are legal malpractice cases arising out of patent matters. Neither case cites *Grable* or mentions considerations of federalism at all.

**B. Courts in many jurisdictions conflict on application of the *Grable* standard or the Federal Circuit standard.**

In the five years since the Federal Circuit decided *Air Measurement* and *Immunocept*, numerous state and federal courts have analyzed “arising under” jurisdiction over state law legal malpractice claims involving underlying patent matters. The decisions conflict wildly, with some courts refusing to follow the Federal Circuit standard because it improperly departs from the *Grable* standard, and some courts strictly following the Federal Circuit standard.

For example, among the state courts, the Supreme Court of Texas in this case strictly followed the Federal Circuit standard, as did a California court. App. 1-26; *Landmark Screens, LLC v. Morgan, Lewis, Bockius, LLP*, 107 Cal. Rptr. 3d 373, 183 Cal. App. 4th 238 (Cal. Ct. App. 2010), *cert. denied*, 131 S.Ct. 1472 (2011). The Supreme Court of Nebraska, in a pair of cases decided before and after *Air Measurement*, went the other way and held that the state law malpractice claims belong in state court. *New Tek Mfg., Inc. v. Beehner*, 702 N.W.2d 336, 346 (Neb. 2005) (noting that “the federal government has no interest in hypothetical determinations regarding an unenforceable patent”); *New Tek Mfg., Inc. v. Beehner*, 751 N.W.2d 135, 144 (Neb. 2008). *Compare Magnetek, Inc. v. Kirkland and Ellis, L.L.P.*, 954 N.E.2d 803, 811-812 (Ill. App. Ct. 2011) (holding that *Grable* standard applies), and *Premier Networks, Inc. v. Stadheim and Grear, Inc.*, 918 N.E.2d 1117, 1123-1124 (Ill. Ct. App.

2009) (finding federal court jurisdiction over legal malpractice claims arising out of patent matter, but conducting no federalism analysis).

The federal courts are likewise in conflict regarding whether the *Grable* standard or the Federal Circuit standard controls. Perhaps the best illustration of the fundamental conflict is in the Fifth Circuit, where two different panels applied the two different standards in legal malpractice cases. Compare *Singh v. Duane Morris, LLP*, 538 F.3d 334, 340 (5th Cir. 2008) (applying the *Grable* standard and “declin[ing] to follow or extend” *Air Measurement* because the Federal Circuit “did not consider the reasons addressed here, involving the federal interest and the effect on federalism”) with *USPPS, Ltd. v. Avery Dennison Corp.*, 647 F.3d 274, 281-282 (5th Cir. 2011) (strictly following Federal Circuit standard).

The *USPPS* panel declined to follow *Singh* because *Air Measurement* involved patent issues in the underlying case while *Singh* involved trademark issues.<sup>1</sup> *Id.* The conflict between the two cases, however, reflects a more fundamental disagreement regarding the appropriate standard for analyzing “arising under” jurisdiction. With its analysis of the requirement in *Grable* that any federal question be

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<sup>1</sup> The standard for “arising under” jurisdiction should be the same as between trademark and patent issues, because 28 U.S.C. § 1338(a) applies to both categories of issues. The only difference between them is that federal court jurisdiction is exclusive for patent matters but not for trademark matters.



*substantial* to confer jurisdiction, and its analysis of federalism concerns that the Federal Circuit brushed aside in *Air Measurement*, *Singh* applied a substantively different standard than the broad, if-it-relates-to-a-patent-it-must-be-substantial standard applied by the Federal Circuit. Indeed, *Air Measurement* and *Singh* have been characterized as reflecting a split among the circuits on the proper jurisdictional standard. See, e.g., Mallen & Smith, *Legal Malpractice*, § 35:4 at 1157 (2009 ed.) (noting that the Fifth Circuit in *Singh* “both challenged and distinguished the Federal Circuit” in *Air Measurement*); *Landmark Screens, L.L.C. v. Morgan, Lewis & Bockius, L.L.P.*, 107 Cal. Rptr. 3d 373, 382, 183 Cal. App. 4th 238, 249 (2010) (noting that in *Singh* “the Fifth Circuit rejected the analysis in [*Air Measurement*] and found neither a substantial federal issue nor a sustained balance between federal and state judicial responsibilities”); *Just Trust Solutions, Inc. v. Buchanan Ingersoll & Rooney, P.C.*, 2010 WL 2998673 at \*3 (D. Md. 2010); *Tofanelli v. Biogen Idec, Inc.*, 2008 WL 3824775 at \*4 n.1 (D. Mass. Aug. 5, 2008); *Katz v. Holland & Knight, L.L.P.*, 2009 WL 367204 at \*3 (E.D. Va. Feb. 12, 2009); *Revolutionary Concepts, Inc. v. Clements Walker PLLC*, 2010 WL 877508 at \*10 (Super. Ct. N.C. Mar. 9, 2010).

The conflict regarding which jurisdictional standard to apply extends to courts in many jurisdictions, both state and federal. Some, like the Texas Court in this case, have strictly followed the Federal Circuit standard and found “arising under” jurisdiction over

state law malpractice claims arising out of patent matters.<sup>2</sup> By contrast, other state and federal courts have declined to follow the Federal Circuit standard for “arising under” jurisdiction.<sup>3</sup> One representative

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<sup>2</sup> See, e.g., *USPPS, Ltd. v. Avery Dennison Corp.*, 647 F.3d 274 (5th Cir. 2011); *Warrior Sports, Inc. v. Dickinson Wright, PLLC*, 631 F.3d 1367 (Fed. Cir. 2011); *Premier Networks, Inc. v. Stadheim and Grear, Inc.*, 918 N.E.2d 1117 (Ill. Ct. App. 2009); *Tomar Elec., Inc. v. Watkins*, 2009 WL 2222707 (D. Ariz. Jul. 23, 2009); *Byrne v. Wood, Herron & Evans, LLP*, 2008 WL 3833699 (E.D. Ky. Aug. 13, 2008); *LaBelle v. McGonagle*, 2008 WL 3842998 (D. Mass. Aug. 15, 2008); *Rockwood Retaining Walls, Inc. v. Patterson, Thuente, Skaar & Christensen, PA*, 2009 WL 5185770 (D. Minn. Dec. 22, 2009); *Davis v. Brouse McDowell, L.P.A.*, 596 F.3d 1355 (Fed. Cir. 2010), *cert. denied*, 131 S.Ct. 118 (2010); *Landmark Screens, LLC v. Morgan, Lewis, Bockius, LLP*, 107 Cal. Rptr. 3d 373, 183 Cal. App. 4th 238 (Cal. Ct. App. 2010), *cert. denied*, 131 S.Ct. 1472 (2011); *Lockwood v. Sheppard, Mullin, Richter & Hampton*, 93 Cal. Rptr. 3d 220, 173 Cal. App. 4th 675 (Cal. Ct. App. 2009); *Chopra v. Townsend, Townsend and Crew, LLP*, 2008 WL 413944 (D. Colo. 2008); *Lans v. Adducci Mastriani & Schaumberg, LLP*, 786 F. Supp. 2d 316 (D. D.C. 2011); *Parus Holdings, Inc. v. Banner & Witcoff, Ltd.*, 585 F. Supp. 2d 995 (N.D. Ill. 2008); *Max-Planck-Gesellschaft ZUR Foerderung Der Wissenschaften E.V. v. Wolf Greenfield & Sacks, PC*, 661 F. Supp. 2d 125 (D. Mass. 2009); *Lemkin v. Hahn, Loeser & Parks, LLP*, 2010 WL 1881962 (Ohio Ct. App. May 11, 2010); *Carter v. ALK Holdings, Inc.*, 605 F.3d 1319 (Fed. Cir. 2010); *Cold Spring Harbor Lab v. Ropes & Gray, LLP*, 762 F. Supp. 2d 543 (E.D. N.Y. 2011).

<sup>3</sup> See, e.g., *Genelink Biosciences, Inc. v. Colby*, 2010 WL 2681915 (D. N.J. July 1, 2010); *Danner, Inc. v. Foley & Lardner, L.L.P.*, 2010 WL 2608294 (D. Or. June 23, 2010); *Eddings v. Glast, Phillips & Murray*, 2008 WL 2522544 (N.D. Tex. June 25, 2008); *Haase v. Abraham, Watkins, Nichols, Sorrels, Agosto and Friend, L.L.P.*, 2010 WL 519747 (E.D. Tex. Feb. 9, 2010); *New Tek Mfg., Inc. v. Beehner*, 751 N.W.2d 135 (Neb. 2008);

(Continued on following page)

case involved a botched patent application; the plaintiffs contended that legal malpractice claims implicated “arising under” jurisdiction because “to prevail on their claims, they may have to prove that ‘but for’ the defendants’ negligence, they would have acquired a patent.” *Roof Technical Serv., Inc. v. Hill*, 679 F. Supp. 2d 749, 752 (N.D. Tex. 2010). The court held that although the claims involved patent issues, they were not “actually disputed and substantial” issues of federal law:

The federal issues identified by plaintiffs are not important issues of law. The court will not, for example, have to determine the meaning of federal patent law. Moreover, because the potential federal issues require only application of federal law to the specific facts of this case, the resolution of those issues will not be controlling in numerous other cases.

*Roof*, 679 F. Supp. 2d at 753 (citing *Grable* and holding that exercising federal jurisdiction over legal malpractice claims “would disturb the balance of

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*Revolutionary Concepts, Inc. v. Clements Walker PLLC*, 2010 WL 877508 (Super. Ct. N.C. Mar. 9, 2010); *Taylor v. Kochanowski*, 2008 U.S. Dist. LEXIS 20430 (E.D. Mich. Mar. 14, 2008); *E-Pass Technologies, Inc. v. Moses & Singer, L.L.P.*, 117 Cal. Rptr. 3d 516, 189 Cal. App. 4th 1140 (Cal. App. 2010); *Antiballistic Sec. and Protection, Inc. v. Baker, Donelson, Bearman, Caldwell & Berkowitz, PC*, 789 F. Supp. 2d 90 (D. D.C. 2011); *James H. Anderson, Inc. v. Johnson*, 2009 WL 2244622 (N.D. Ill. June 27, 2009); *Magnetek, Inc. v. Kirkland and Ellis, L.L.P.*, 954 N.E.2d 803 (Ill. App. Ct. 2011).

federal and state judicial responsibilities” and “sweep an entire category of cases, traditionally the domain of state courts, into federal court”); see also *RX.com, Inc. v. O’Quinn*, 766 F. Supp. 2d 790, 795 n.1 (S.D. Tex. 2011) (“The Fifth Circuit has rejected the *Air Measurement* analysis as being too abbreviated, and this court will do likewise.”).

Before *Air Measurement*, there was no conflict regarding the appropriate standard for “arising under” jurisdiction over legal malpractice cases. See Mallen & Smith, *Legal Malpractice*, § 24:24 at 664-665 (2009 ed.) (noting that *Air Measurement* reflected a change in the law: “Until 2007, the courts reviewing the issue held that a lawsuit for legal malpractice, concerning errors in patent law or procedure, invoked a state remedy, although issues of federal law may be central to the analysis and resolution of the claim.”). Since the Federal Circuit departed from *Grable* and adopted its new standard, however, substantial conflicts have arisen that this Court should address.

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## CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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App. 1

**IN THE SUPREME COURT OF TEXAS**

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No. 10-0141.

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**VERNON F. MINTON, PETITIONER,**

**v.**

**JERRY W. GUNN, INDIVIDUALLY, WILLIAMS SQUIRE &  
WREN, L.L.P., JAMES E. WREN, INDIVIDUALLY,  
SLUSSER & FROST, L.L.P., WILLIAM C. SLUSSER,  
INDIVIDUALLY, SLUSSER WILSON & PARTRIDGE, L.L.P.,  
AND MICHAEL E. WILSON, INDIVIDUALLY, RESPONDENTS.**

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**ON PETITIONER FOR REVIEW FROM THE COURT OF  
APPEALS FOR THE SECOND DISTRICT OF TEXAS**

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**Argued March 1, 2011**

JUSTICE GREEN delivered the opinion of the Court, in which CHIEF JUSTICE JEFFERSON, JUSTICE WAINWRIGHT, JUSTICE JOHNSON, and JUSTICE LEHRMANN joined.

JUSTICE GUZMAN filed a dissenting opinion, in which JUSTICE MEDINA and JUSTICE WILLETT joined.

JUSTICE HECHT did not participate in the decision.

This case arises out of patent infringement litigation. We consider whether federal courts possess exclusive subject-matter jurisdiction over state-based legal malpractice claims that require the application



of federal patent law. The federal patent issue presented here is necessary, disputed, and substantial within the context of the overlying state legal malpractice lawsuit. Additionally, the patent issue may be determined without creating a jurisdictional imbalance between state and federal courts. We conclude that exclusive federal jurisdiction exists in this case. Accordingly, without reaching the merits of the legal malpractice claim, we reverse the court of appeals' judgment and dismiss this case.

## **I. BACKGROUND**

### **A. TEXTCEN and the '643 Patent**

Petitioner, Vernon Minton, is a former securities broker. In early 1990, Minton formed Texas International Stock Exchange, Inc. (TISE). A couple of years later, Minton began developing the Texas Computer Exchange Network (TEXTCEN), a software program intended to operate over a telecommunications network. Minton developed the TEXTCEN software to allow financial investors to "open[] brokerage accounts and execut[e] trades" at their own convenience "with all the investment technology the experts enjoy." After successfully establishing TEXTCEN's commercial viability to R.M. Stark & Co. (Stark), a New York corporation and member of the National Association of Securities Dealers, Inc. (NASD), Minton asked Stark to employ TEXTCEN in its business. In a January 1995 letter, Minton touted TEXTCEN's utility to Stark's business, stating that "[a]fter five

years of development, TEXTCEN is scheduled to be on-line during March or April of this year." Stark agreed to lease TEXTCEN from TISE, Minton's company. The lease permitted Stark to use TEXTCEN "for the purpose of opening brokerage accounts and executing trades for individuals." In exchange, Stark agreed to pay TISE a monthly payment of the lesser of \$2,000.00 or 30% of the gross revenues that Stark derived from using TEXTCEN. The lease warranted that "TEXTCEN will perform in a workmanlike manner." During the lease negotiations, Minton knew that Stark could not use TEXTCEN or provide its customers with TEXTCEN's benefits until NASD had reviewed and approved of the software. Despite this knowledge, Minton did not disclose to Stark that he intended to lease TEXTCEN to Stark for experimental purposes.

More than one year after signing the TEXTCEN lease, Minton filed a provisional application for a patent covering an interactive securities trading system that contained features very similar to TEXTCEN. Minton's patent attorney drafted the patent application with the aid of TEXTCEN's software assistance manual, which Minton had provided him. The United States Patent and Trademark Office granted Minton a patent (the '643 Patent) on January 11, 2000.

## **B. Underlying Patent Infringement Litigation**

Subsequently, Minton filed a patent infringement action against NASD and The NASDAQ Stock Market, Inc. in the United States District Court for the Eastern District of Texas. *Minton v. Nat'l Ass'n of Sec. Dealers, Inc.*, 226 F.Supp.2d 845, 852 (E.D. Tex. 2002). Minton's infringement suit alleged that the NASDAQ software system used in conjunction with NASD's services infringed the '643 patent. *Id.* at 854. At the time they filed the patent infringement suit on Minton's behalf, his attorneys had no knowledge of the TEXCEN lease. NASD and NASDAQ moved for summary judgment, alleging the '643 patent's invalidity under the "on-sale bar" provided in § 102(b) of the U.S. Patent Act. *Id.* at 852; *see* 35 U.S.C. § 102(b). Under the on-sale bar, a patent is invalid when the invention claimed by the patent is sold "more than one year prior to the date of the application for patent in the United States." 35 U.S.C. § 102(b). As an initial defense to the application of the on-sale bar, Minton pled that TEXCEN was a different type of software system than that claimed by the '643 patent. *Minton*, 226 F.Supp.2d at 855. The federal district court found Minton's argument unpersuasive and, accordingly, granted NASD and NASDAQ's motion for summary judgment and declared the '643 patent invalid. *Id.* at 852, 882-84.

Following the district court's decision, Minton asked his attorneys to consider a new defense to the on-sale bar – the experimental use exception. Under

the experimental use exception, a patent will not be invalidated by the on-sale bar if the purpose for which the patented invention was sold was primarily experimental rather than commercial. See *Electromotive Div. of Gen. Motors Corp. v. Transp. Sys. Div. of Gen. Elec. Co.*, 417 F.3d 1203, 1210 (Fed. Cir. 2005). Minton obtained new counsel to brief the experimental use exception to the on-sale bar, and a motion for reconsideration arguing the experimental use exception was filed on Minton's behalf. When the federal district court denied Minton's motion for reconsideration, Minton appealed to the United States Court of Appeals for the Federal Circuit. See *Minton v. Nat'l Ass'n of Sec. Dealers, Inc.*, 336 F.3d 1373 (Fed. Cir. 2003). On appeal, the Federal Circuit affirmed the federal district court's denial of reconsideration because the experimental use exception was not timely asserted during trial. *Id.* at 1379-81.

### **C. Resulting State-Based Legal Malpractice Lawsuit**

Minton filed a legal malpractice suit in state court against Respondents, the attorneys who had originally prosecuted his patent infringement litigation in the federal district court: Jerry W. Gunn, individually; Williams Squire & Wren, L.L.P.; James E. Wren, individually; Slusser & Frost, L.L.P.; William C. Slusser, individually; Slusser Wilson & Partridge, L.L.P.; and Michael E. Wilson, individually (collectively "Gunn"). Minton alleged that Gunn's negligent failure to timely plead and brief the experimental use exception to the on-sale bar cost him the

opportunity of winning his federal patent infringement litigation. Alternatively, Minton claimed that Gunn's negligence resulted in the pretrial dismissal of his patent infringement suit, costing him a potential settlement with NASD and NASDAQ of his claim for more than \$100,000,000.00 in damages. Gunn, in turn, challenged the causation element of Minton's malpractice claim by filing joint no-evidence and traditional motions for summary judgment. Gunn's joint motions asserted that he was not obligated to raise the experimental use exception to the on-sale bar because, under the facts in existence at the time of the federal patent infringement litigation, the exception was neither a legally nor factually viable defense. Therefore, Gunn asserted that Minton could not establish as a matter of law that, but for his failure to plead the experimental use exception, Minton would have won his patent infringement lawsuit.

Based on the absence of any evidence that the primary purpose of the TEXCEN lease was experimental, the trial court granted Gunn's no-evidence motions for summary judgment and motions to dismiss and rendered a take-nothing judgment in his favor.<sup>1</sup> Minton appealed the judgment to the Second

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<sup>1</sup> Gunn filed two joint motions for summary judgment, with the second filing in response to Minton's first amended original petition. Both of Gunn's joint motions included no-evidence and traditional motions for summary judgment. Initially, the trial court granted Gunn's first no-evidence motion for summary judgment and partially granted Gunn's first traditional motion

(Continued on following page)



Court of Appeals in Fort Worth. *Minton v. Gunn*, 301 S.W.3d 702 (Tex. App.-Fort Worth 2009, pet. granted).

Shortly after Minton filed his state court appeal, the United States Court of Appeals for the Federal Circuit decided *Air Measurement Technologies, Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 504 F.3d 1262 (Fed. Cir. 2007). *Air Measurement* held that when “establishing patent infringement is a necessary element of a [state] malpractice claim stemming from alleged mishandling of . . . earlier patent litigation, the issue is substantial and contested, and federal resolution of the issue was intended by Congress,” and thus, federal courts possess exclusive “arising under” jurisdiction of the malpractice claim. *Id.* at 1273. Relying on *Air Measurement*, Minton argued that his malpractice suit arose under exclusive federal patent law jurisdiction and asked the court of appeals to dismiss his appeal for lack of subject-matter jurisdiction. Declining to follow the

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for summary judgment, but waited for additional briefing to dispose of the new claims alleged in Minton’s amended petition. Minton’s amended petition included a new damages theory, alleging that Minton would have settled the patent litigation or that Minton would have prevailed at trial and recovered damages of at least \$100,000,000.00 if the federal district court had not dismissed his claim under the on-sale bar. In response to Gunn’s second joint motion, Minton merely incorporated by reference his briefing and evidence filed in response to Gunn’s first joint motion and offered no additional evidence or argument. After reviewing the additional briefing and summary-judgment evidence, the trial court granted Gunn’s second joint motion for summary judgment.



Federal Circuit's precedent, the court of appeals held that it had subject-matter jurisdiction over Minton's appeal and denied his motion to dismiss. *Minton*, 301 S.W.3d at 709. The court of appeals then affirmed the trial court's judgment, which granted Gunn's joint motions for summary judgment. *Id.* at 715. Minton filed a petition for review, which we granted. 54 TEX.SUP.CT.J. 538 (Feb. 8, 2011).

## II. ANALYSIS

### A. Subject-Matter Jurisdiction

Before we can reach the merits of Minton's claim, we must first determine whether we possess subject-matter jurisdiction to consider this appeal. See *Coastal Oil & Gas Corp. v. Garza Energy Trust*, 268 S.W.3d 1, 9 (Tex. 2008) (considering jurisdiction before proceeding to determine the merits of the case). The question of "[w]hether a court has subject matter jurisdiction is a question of law that we review de novo." *City of Dallas v. Carbajal*, 324 S.W.3d 537, 538 (Tex. 2010) (per curiam). In support of his view that this case arises under exclusive federal patent law jurisdiction, Minton relies chiefly on two Federal Circuit opinions. *Air Measurement*, 504 F.3d 1262; *Immunocept, LLC v. Fulbright & Jaworski, LLP*, 504 F.3d 1281 (Fed. Cir. 2007). Minton asserts that the court of appeals erred in rejecting these cases and in applying non-patent law cases to reach its holding. In reply, Gunn argues that this Court is not bound by the decisions of the Federal Circuit and

that the two Federal Circuit opinions that Minton would have us follow fail to apply the federalism analysis required by the United States Supreme Court in cases involving the division of jurisdiction between state and federal courts. *See Grable & Sons Metal Prods., Inc. v. Darue Eng'g & Mfg.*, 545 U.S. 308, 314 (2005). Although we disagree with Minton's claim that non-patent law cases are inapplicable to the issues presented here, we do agree that the experimental use exception to the on-sale bar plays a substantial role within the context of Minton's state-based legal malpractice claim. *Cf. Alexander v. Turtur & Assocs.*, 146 S.W.3d 113, 117 (Tex. 2004) ("To prevail on a legal malpractice claim, a plaintiff must show that . . . [his attorney's negligence] proximately caused the plaintiff's injuries. . . ." (internal quotations omitted)); *Schaeffer v. O'Brien*, 39 S.W.3d 719, 720 (Tex. App.-Eastland 2001, pet. denied) (legal malpractice plaintiffs must prove a "case within a case"). We are also of the opinion that federal courts may entertain the application of this patent law concept within a state-based legal malpractice suit without disturbing the balance Congress has struck between state and federal judicial responsibilities. *See Grable*, 545 U.S. at 313-14. Accordingly, we are persuaded that exclusive federal patent law jurisdiction has been triggered and that we lack subject-matter jurisdiction to consider Minton's appeal.

Congress has provided federal courts jurisdiction over civil actions generally "arising under" federal law and also over actions specifically "arising under"

any federal law relating to patents. See 28 U.S.C. §§ 1331 (providing general federal question jurisdiction), 1338(a) (providing patent law jurisdiction). One form of “arising under” federal-question jurisdiction stems from “state-law claims that implicate significant federal issues.” *Grable*, 545 U.S. at 312. In *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800 (1988), the Supreme Court construed § 1338(a)’s “arising under” language to extend federal jurisdiction to any case “in which a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff’s right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims.” 486 U.S. at 808-09. Whether a patent issue presented in a state-based action is substantial enough to trigger federal jurisdiction under § 1338(a) “must be determined from what necessarily appears in the plaintiff’s [well-pleaded complaint] . . . unaided by anything alleged in anticipation or avoidance of defenses which it is thought the defendant may interpose.” *Id.* at 809 (internal quotations omitted).

Several opinions issued by the United States Supreme Court demonstrate federal courts’ traditional reluctance to allow state plaintiffs to open “the ‘arising under’ door” by simply pleading a federal issue. *E.g.*, *Grable*, 545 U.S. at 313; *Gully v. First Nat’l Bank in Meridian*, 299 U.S. 109, 117-18 (1936) (declining to define cases arising under federal law broadly and adopting instead “a selective process

which picks the substantial causes out of the web and lays the other ones aside"); *Shulthis v. McDougal*, 225 U.S. 561, 569 (1912) ("A suit to enforce a right which takes its origin in the laws of the United States is not necessarily, or for that reason alone, one arising under those laws, for a suit does not so arise unless it really and substantially involves a dispute or controversy respecting the validity, construction, or effect of such a law, upon the determination of which the result depends."). Based on its reluctance to open wide the federal courthouse doors, the Supreme Court has added several other requirements, in addition to substantiality, which must be satisfied before a federal patent issue presented in a state action may trigger exclusive federal patent jurisdiction.

In *Grable*, the Supreme Court refined the *Christianson* test and clarified the role that federalism concerns should play in the analysis of whether a state-based lawsuit with embedded federal issues arises under federal jurisdiction: "[T]he question is, does a state-law claim necessarily raise a stated federal issue, actually disputed and substantial, which a federal forum may entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities." *Grable*, 545 U.S. at 314. "In other words, federal question jurisdiction exists where (1) resolving a federal issue is necessary to resolution of the state-law claim; (2) the federal issue is actually disputed; (3) the federal issue is substantial; and (4) federal jurisdiction will not disturb the balance of federal and state judicial

responsibilities.” *Singh v. Duane Morris LLP*, 538 F.3d 334, 338 (5th Cir. 2008) (interpreting *Grable*). Although *Grable* is a non-patent law case, we may apply this test here to determine whether Minton’s state-based legal malpractice claim arises under exclusive federal patent law jurisdiction. See *Holmes Grp., Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 829-30 (2002); *Christianson*, 486 U.S. at 808-09.

While we are not bound by the holdings of the Federal Circuit, its opinions in *Air Measurement* and *Immunocept* are directly on point with the issues and facts presented by Minton’s legal malpractice action. Cf. *Penrod Drilling Corp. v. Williams*, 868 S.W.2d 294, 296 (Tex. 1993) (stating that only the opinions of the United States Supreme Court are binding on this Court). *Air Measurement* dealt with a state-based legal malpractice claim stemming from an underlying patent dispute. 504 F.3d at 1265. In the underlying patent litigation, *Air Measurement* filed several patent infringement suits and ultimately settled all of the cases. *Id.* at 1266. Based on information discovered with subsequent counsel, *Air Measurement* claimed it was forced to settle for an amount far below the market value of the patents due to errors committed by their original patent attorney during the patent application process. *Id.* *Air Measurement* alleged that the patent attorney failed to timely file the patent application within the one year on-sale bar, failed to disclose prior patents and other facts while prosecuting the patent applications, and committed other



errors that led to the invalidity of Air Measurement's patents in the underlying litigation. *Id.* In the resulting state-based legal malpractice lawsuit, the Federal Circuit held that it possessed exclusive jurisdiction over the malpractice suit. *Id.* at 1269. The Federal Circuit explained that "[b]ecause proof of patent infringement is necessary to show [Air Measurement] would have prevailed in the prior litigation, patent infringement is a 'necessary element' of [Air Measurement's] malpractice claim and therefore apparently presents a substantial question of patent law conferring [exclusive federal patent law] jurisdiction." *Id.* The *Immunocept* case involved a similar issue. 504 F.3d at 1282. There, the assignee of a patent brought a state-based legal malpractice action against the patent attorney originally hired to apply for and prosecute the patent at issue. *Id.* at 1283-84. The basis of the resulting malpractice suit was the patent attorney's claim-drafting error, which allegedly resulted in a lower level of protection for the patented technology. *Id.* at 1284-85. Again, the Federal Circuit determined that it had exclusive jurisdiction over the state-based legal malpractice suit "[b]ecause patent claim scope defines the scope of patent protection . . . [and] is the first step of a patent infringement analysis," and is therefore "a substantial question of patent law." *Id.* at 1285.

To support his assertion that we should follow the Federal Circuit's holdings in *Air Measurement* and *Immunocept*, Minton criticizes the court of appeals' reliance on non-patent law cases and argues



that we should look only to patent law cases because Congress has given federal courts exclusive jurisdiction over patent law. See *Empire Healthchoice Assurance, Inc. v. McVeigh*, 547 U.S. 677, 682 (2006) (involving a state lawsuit for reimbursement based on a provision of the Federal Employees Health Benefits Act); *Grable*, 545 U.S. at 310 (involving a state quiet title action based on a federal tax statute); *Singh*, 538 F.3d at 338 (involving a state-based legal malpractice claim stemming from an underlying trademark dispute). We find this distinction to be unpersuasive because the Federal Circuit applied these very cases to reach its holdings in *Air Measurement* and *Immunocept*. See *Immunocept*, 504 F.3d at 1285-86; *Air Measurement*, 504 F.3d at 1271-73. Moreover, in various contexts, the Supreme Court has applied the same rules and tests to patent law and non-patent law cases alike. See, e.g., *Holmes Grp.*, 535 U.S. at 829-30; *Christianson*, 486 U.S. at 808-09. Thus, we may look to both patent and non-patent law cases to determine whether exclusive federal jurisdiction exists. After applying the law to the facts and issues presented here, we determine each of the four *Grable* elements have been satisfied and that the court of appeals erred in concluding that exclusive federal patent law jurisdiction was not triggered by the federal issue embedded in Minton's legal malpractice lawsuit.

The first prong of the *Grable* test requires that the applicability of the experimental use exception to the on-sale bar be a necessary component in the

determination of Minton's state-based legal malpractice claim. *See Grable*, 545 U.S. at 314. In *Grable*, the Supreme Court held that the interpretation of a federal tax statute was a necessary element of the petitioner's state-based quiet title action because the success of his claim turned on that issue alone. *Id.* at 314-15. Until the Supreme Court construed the language and determined the meaning of the federal statute, it could not determine whether the petitioner had successfully proven his state-law claim. *Id.* The Supreme Court has further explained that a federal element cannot be deemed necessary to a state-law claim if on the face of the well-pleaded complaint there are alternative theories upon which the claimant may recover. *Christianson*, 486 U.S. at 810. Here, Minton's trial court petition asserted only one theory in support of his legal malpractice claim – his attorneys' negligent failure to timely plead and brief the experimental use exception to the on-sale bar. Because Minton relies on a single negligence claim, there are no alternative theories on which he may establish his attorneys' legal malpractice. Moreover, a determination of whether Minton would have won his underlying federal patent infringement action necessarily requires a consideration of the legal and factual viability of the experimental use defense. *See Grable*, 545 U.S. at 314-15; *Alexander*, 146 S.W.3d at 117; *see also Air Measurement*, 504 F.3d at 1270 (noting that in the case-within-a-case requirement for legal malpractice claims, the plaintiff had the burden of proving patent infringement, and whether the plaintiff would have prevailed against the on-sale bar defense

raised in the underlying patent litigation is “not the sort of jurisdiction-defeating defense[] contemplated by [the Supreme Court in] *Christianson* “ because it is “part of the malpractice causation element rather than the defense[] raised by [the defendant] in the” malpractice claim). If the experimental use defense would not apply under the facts of his case, for instance, Minton’s attorneys’ negligence could not have proximately caused the federal district court to invalidate the claims of the ’643 patent. *See Grable*, 545 U.S. at 314-15. Therefore, the applicability of the experimental use exception is a necessary element of Minton’s state legal malpractice suit, and the first *Grable* prong is satisfied.

The second prong of the *Grable* test requires that the experimental use exception to the on-sale bar be disputed in Minton’s state-based legal malpractice lawsuit. *See id.* at 314. For obvious reasons, the legal and factual viability of the experimental use exception is clearly in dispute. Minton’s attorneys will be liable for legal malpractice if the experimental use exception would have been a viable defense to the on-sale bar and a defense that a reasonably prudent patent attorney would have raised. *See Alexander*, 146 S.W.3d at 117. Accordingly, to defeat the applicability of the experimental use exception, Gunn alleges Minton leased *TEXCEN* for a primarily commercial purpose. Minton, on the other hand, avers that the exception would have applied to save the ’643 patent from invalidation because the *TEXCEN* system was not fully operational and, therefore, required extensive experimentation at the time he leased the

software to Stark. This dispute regarding the applicability of the experimental use exception satisfies the second element of the *Grable* test.

The third prong of the *Grable* test demands that the applicability of the experimental use exception be a substantial issue within Minton's state-based legal malpractice claim. See 545 U.S. at 314. Although we recognize that this question is close, we disagree with the court of appeals' holding that the experimental use exception is not a substantial element here. In determining whether a federal patent issue is a substantial element within the context of a state-based legal malpractice claim, we are informed by the Supreme Court's holding in *Empire Healthchoice Assurance, Inc. v. McVeigh*, 547 U.S. 677 (2006). In *Empire*, an insurance carrier sued the estate of one of its deceased insureds in federal district court when it learned that the insured's estate had settled a state-based personal injury suit on his behalf. *Id.* at 683. The carrier's federal suit sought reimbursement for the full amount of benefits it had paid to the insured after he sustained injuries in an accident. *Id.* The carrier asserted that its reimbursement claims arose under federal jurisdiction because a preemption provision in the insured's insurance contract stated that federal law shall supersede any state law relating to benefits. See *id.* at 699. The Supreme Court held that the operation of the preemption clause of the federal insurance contract was not a substantial issue because "the bottom-line practical issue [in the state-based reimbursement claim] is the share of

[the] settlement properly payable to [the carrier].” *Id.* at 700-01. Unlike *Grable*, where the construction and interpretation of a federal tax statute was the crux of the state-based lawsuit, even if the preemption provision in *Empire* allowed federal law to trump state law regarding reimbursement for benefits, the carrier could not win until it proved that it was entitled to reimbursement from the state-based personal injury recovery. Compare *Grable*, 545 U.S. at 315, with *Empire*, 547 U.S. at 700-01. We conclude that the experimental use exception presented here is more similar to the substantial federal issue presented in *Grable* than the insubstantial issue presented in *Empire*.

Following *Grable*, other courts have deemed federal patent issues substantial when the determination of the patent issue establishes the success or failure of an overlying state-law claim. See, e.g., *USPPS, Ltd. v. Avery Dennison Corp.*, 647 F.3d 274, 280-82 (5th Cir. 2011) (holding that the state-law claims of fraud and breach of fiduciary duty in connection with a patent application presented a substantial federal patent issue because the causation element required the plaintiff to prove the underlying patentability of its invention); *Warrior Sports, Inc. v. Dickinson Wright, P.L.L.C.*, 631 F.3d 1367, 1372 (Fed. Cir. 2011) (holding that in order for the plaintiff to prove its case-within-a-case in the legal malpractice suit, the state-based malpractice action presented a substantial federal patent issue because it required a resolution on the merits of the patent infringement



claims, which were not addressed by the federal district court in the underlying patent infringement litigation); *Davis v. Brouse McDowell, L.P.A.*, 596 F.3d 1355, 1361-62 (Fed. Cir. 2010), *cert. denied*, 131 S.Ct. 118 (2010) (holding that a state-based legal malpractice action presented a substantial federal patent issue where no patent had actually issued because of the attorney's alleged failure to timely file the patent application); *Immunocept*, 504 F.3d at 1285 (holding that the construction of patent claims, which define the amount of protection a patent receives against infringement, was a substantial federal issue within the context of a state legal malpractice suit based on a patent attorney's claim-drafting error); *U.S. Valves, Inc. v. Dray*, 212 F.3d 1368, 1372 (Fed. Cir. 2000) (stating that a federal patent issue was substantial to a state breach-of-contract claim where a patent licensee had to construe the claims of the licensed patent to show that the licensor had sold products protected by the patent in contravention of a licensing agreement); *Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 986 F.2d 476, 477-78 (Fed. Cir. 1993) (holding that a determination of patent infringement was a substantial federal issue within the context of a state-based business disparagement claim in which the plaintiff could not succeed until it showed that the defendant lied about the plaintiff having infringed its patent); *Landmark Screens, LLC v. Morgan, Lewis & Bockius, LLP*, 107 Cal. Rptr. 3d 373, 381 (Cal. Ct. App. 2010), *cert. denied*, 131 S.Ct. 1472 (2011) (finding exclusive federal question jurisdiction where the plaintiff's legal malpractice claim,



stemming from the attorney's negligence in prosecuting the patent, required proof of a substantial issue of federal patent law). Similarly, to succeed on his state-based legal malpractice claim, Minton must establish that Gunn was required to raise the experimental use exception because it was a legally and factually viable defense to the on-sale bar and that Gunn's failure to do so proximately caused Minton to lose his federal patent infringement litigation. *See Alexander*, 146 S.W.3d at 117. Therefore, because the success of Minton's malpractice claim is reliant upon the viability of the experimental use exception as a defense to the on-sale bar, we hold that it is a substantial federal issue satisfying the third prong of the *Grable* inquiry.

Finally, the fourth *Grable* element requires that the determination of the viability of the experimental use exception be a question that a federal court may decide without upsetting the balance between federal and state judicial responsibilities. *Grable*, 545 U.S. at 314. This final factor is perhaps the most important. *See id.* ("[T]he presence of a disputed federal issue and the ostensible importance of a federal forum are never necessarily dispositive; there must always be an assessment of any disruptive portent in exercising federal jurisdiction."). Although we recognize that legal malpractice claims traditionally fall under the domain of state courts, we conclude that federal courts may decide this malpractice case without upsetting the jurisdictional balance between federal and state courts. *Compare USPPS*, 647 F.3d at 282

(finding federal-question jurisdiction in a state-based tort claim where the underlying proceedings involved substantial questions of *patent* law), *with Singh*, 538 F.3d at 338 (recognizing the importance of federalism considerations and holding a state-based legal malpractice resulting from an underlying *trademark* dispute did not meet the standard for federal jurisdiction).<sup>2</sup> In *Grable*, the Supreme Court held that allowing

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<sup>2</sup> The dissent and Gunn's emphasis on the Fifth Circuit's holding in *Singh* is misplaced. Although *Singh* also involves a determination of whether exclusive federal jurisdiction over a state-based legal malpractice claim exists, that case is inapplicable to the question considered here. The federal issue in *Singh* arose under trademark law. *Id.* at 336. We have recognized that the distinction between patent and non-patent law cases is irrelevant to our consideration of whether a case arises under federal jurisdiction, however, the Fifth Circuit in *Singh* expressly declined to extend its jurisdictional holding to the area of federal patent law. *Id.* at 340 ("[W]e decline to follow or extend a recent opinion of the Federal Circuit, which found 'arising under' jurisdiction for a malpractice claim stemming from representation in a federal patent suit." (referencing *Air Measurement*, 504 F.3d at 1269)). While limiting its *Singh* holding to the embedded federal trademark dispute, the Fifth Circuit noted the following: "It is possible that the federal interest in patent cases is sufficiently more substantial, such that it might justify federal jurisdiction. But we need not decide [the patent law issue], because it is not before us." *Id.* More recently in *USPPS*, the Fifth Circuit addressed the distinction between underlying trademark and patent disputes embedded in state-based claims. 647 F.3d at 282. In *USPPS*, the Fifth Circuit recognized the federalism concerns expressed in *Singh*, but distinguished *Singh*'s holding, which concerned a legal malpractice claim arising from an underlying trademark dispute, and adopted the Federal Circuit's *Air Measurement* holding of federal question

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a federal court to have jurisdiction over the construction of the federal tax statute did not upset the congressionally approved balance of judicial responsibility because the federal government had a strong interest in having the tax statute applied consistently in the future by federal officials who are frequently charged with the duty of collecting delinquent taxes. *Grable*, 545 U.S. at 312-14. In conducting the federalism analysis required under *Grable*, the Federal Circuit has recognized that federal courts also have a strong interest in having federal patent law applied uniformly. See *Immunocept*, 504 F.3d at 1285-86 (recognizing Congress's "intent to remove non-uniformity in the patent law, as evidenced by its enactment of the Federal Courts Improvement Act of 1982" (citing Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25)); *Air Measurement*, 504 F.3d at 1272 ("There is a strong federal interest in the adjudication of patent infringement claims in federal court because patents are issued by a federal agency."). Not only does the federal government have an interest in the uniform application of patent law, but so do litigants involved in patent law disputes. See *Immunocept*, 504 F.3d at 1285 ("Litigants will benefit from federal judges who are used to handling these complicated [patent law] rules."); *Air Measurement*, 504 F.3d at 1272 (stating that patent litigants will benefit from the "experience, solicitude,

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jurisdiction for a state-law tort claim arising from an underlying patent litigation dispute. *Id.*

and hope of uniformity that a federal forum offers on federal issues” (quoting *Grable*, 545 U.S. at 315) (internal quotation marks omitted)).

Gunn attempts to persuade us that the facts of this case cannot survive the *Grable* federalism inquiry because they are more similar to those considered by the Supreme Court in *Empire*. See *Empire*, 547 U.S. at 677. As explained above, *Empire* involved a state cause of action for reimbursement based on a preemption provision contained within a federal health care act. See *id.* at 693, 699. There, the Supreme Court determined that the federal health care statute was not a substantial element of the carrier’s state reimbursement suit because the more important factor was the extent to which the carrier could attain reimbursement for the medical bills it covered. *Id.* at 701. When applying *Grable*’s federalism inquiry to the non-statutory issue of reimbursement, the Supreme Court stated that “it is hardly apparent why a proper federal-state balance would place such a nonstatutory issue under the complete governance of federal law, to be declared in a federal forum.” See *id.* at 701 (internal citations and quotations omitted).

At first glance, the fact that the experimental use exception to the on-sale bar is a product of case law, rather than statute, appears to warrant a determination that the experimental use exception, like the federal issue in *Empire*, does not survive the *Grable* federalism inquiry. See, e.g., *City of Elizabeth v. Pavement Co.*, 97 U.S. 126, 134-35 (1877) (establishing the experimental use exception to the on-sale

bar). However, courts applying this exception have noted that because the experimental use exception only operates within the context of the statutory on-sale bar, “the focus remains throughout the inquiry on application of the statutory bar itself.” *EZ Dock v. Schafer Sys., Inc.*, 276 F.3d 1347, 1351-52 (Fed. Cir. 2002); see 35 U.S.C. § 102(b). Accordingly, because we cannot determine the success of Minton’s legal malpractice claim without focusing on the application of the on-sale bar, which is based directly in a federal statute, we are not convinced by Gunn’s attempt to liken this case to *Empire*. The on-sale bar serves to invalidate patents issued by the federal government. 35 U.S.C. § 102(b). We agree with the Federal Circuit that when the validity of a patent is questioned, even if within the context of a state-based legal malpractice claim, the federal government and patent litigants have an interest in the uniform application of patent law by courts well-versed in that subject matter. See, e.g., *Immunocept*, 504 F.3d at 1285-86; *Air Measurement*, 504 F.3d at 1272. Accordingly, Minton’s malpractice claim satisfies the fourth prong of the *Grable* test.

Because this case satisfies all four elements of the *Grable* test, we hold that federal courts possess exclusive jurisdiction to determine Minton’s state-based legal malpractice claim. Gunn and the dissent have predicted that this holding will cause all legal malpractice suits arising out of patent litigation to fall under the exclusive patent law jurisdiction of the federal courts. We do not foresee this result. Our



opinion should only be construed as conferring exclusive federal patent jurisdiction based upon the specific facts of this case. In the future, just as Minton has done, any state litigant asserting a legal malpractice action to recover for damages resulting from his patent attorney's negligence in patent prosecution or litigation must also satisfy all four elements of the *Grable* test to place his claim under exclusive federal jurisdiction. In the context of state-based legal malpractice claims, plaintiffs will not always be able to meet such a burden. See, e.g., *Holmes Grp., Inc.*, 535 U.S. at 831 (holding a patent-law counterclaim cannot serve as the basis for "arising under" jurisdiction); *Thompson v. Microsoft Corp.*, 471 F.3d 1288, 1291-92 (Fed. Cir. 2006) (finding the state-law claim of unjust enrichment did not arise under § 1338 jurisdiction because the plaintiff could prevail on the claim by showing the defendant's unauthorized use of proprietary information without proving inventorship under U.S. patent laws); *Roof Tech. Servs., Inc. v. Hill*, 679 F.Supp.2d 749, 754 (N.D. Tex. 2010) (explaining that a state legal malpractice action involving an attorney's "failure to meet deadlines and communicate with [his] client" and in which "[p]atent issues are merely floating on the periphery," did not trigger exclusive federal patent jurisdiction); *Genelink Biosciences, Inc. v. Colby*, 722 F.Supp.2d 592, 601 (D. N.J. 2010) (holding that where a state malpractice claim was based on missed deadlines, and not on the validity of the actual patent itself, there was no patent issue triggering exclusive federal patent law jurisdiction); *E-Pass Techs., Inc. v. Moses & Singer, LLP*, 117



Cal. Rptr. 3d 516, 521 (Cal. Ct. App. 2010) (finding no federal-question jurisdiction where the ultimate question in the legal malpractice claim was not the attorney's negligence in the prosecution of the patent, but rather "that the defendant attorneys knew or should have known that [the plaintiff] did not have sufficient evidence to support the claims" they asserted on its behalf in the underlying litigation.).

### III. CONCLUSION

Because we determine that the application of the experimental use exception to the on-sale bar is a necessary, disputed, and substantial element of Minton's state-based legal malpractice claim, and because the federal courts are capable of addressing this issue without disrupting the jurisdictional balance existing between state and federal courts, we hold that Minton's claim has triggered exclusive federal patent jurisdiction. Accordingly, we do not reach the merits of Minton's claims, and we reverse the court of appeals' judgment and dismiss the case.

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Paul W. Green  
Justice

OPINION DELIVERED: December 16, 2011

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JUSTICE GUZMAN, joined by JUSTICE MEDINA and JUSTICE WILLETT, dissenting.

Our system of justice has a “deep-rooted historic tradition that everyone should have his own day in court,” *Martin v. Wilks*, 490 U.S. 755, 762 (1989) (quotation marks omitted), but there is no right to a second day in a different court. By adopting the approach of the Federal Circuit instead of the United States Supreme Court, the Court allows a defeated litigant to undeservedly hit the “reset” button on his failed legal malpractice case. The defendants, having won on the merits in state court, must now repeat a no doubt costly and time-consuming defense all over again in federal court, a result not required by the mainstream of federal question jurisprudence.

In concluding that there is exclusive federal jurisdiction over this case, the Court principally relies on a pair of Federal Circuit cases, with additional support from a Fifth Circuit case. See *USPPS, Ltd. v. Avery Dennison Corp.*, 647 F.3d 274 (5th Cir. 2011); *Immunocept, LLC v. Fulbright & Jaworski, LLP*, 504 F.3d 1281 (Fed. Cir. 2007); *Air Measurement Techs., Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 504 F.3d 1262 (Fed. Cir. 2007). The two Federal Circuit opinions were written by the same judge, for the same three-judge panel, and issued on the same day. The Fifth Circuit’s position in *USPPS* appears to have been primarily driven by those two opinions. Collectively, these opinions represent a novel method of determining federal question jurisdiction, and one which this Court should not adopt.

Contrary to the Federal Circuit's reasoning in *Air Measurement* and *Immunocept*, federal question jurisprudence requires a more nuanced approach than the version found in these two cases, and implicitly adopted today by this Court. The United States Supreme Court mandates that courts conduct a four-part inquiry before finding federal question jurisdiction in embedded federal issue cases. See *Grable & Sons Metal Prods. v. Darue Eng'g & Mfg.*, 545 U.S. 308, 314 (2005). More specifically, a persuasive Fifth Circuit precedent, conducting that very inquiry, indicates that a legal malpractice case that touches upon federal intellectual property law should nonetheless remain under the jurisdiction of state courts. See *Singh v. Duane Morris LLP*, 538 F.3d 334, 340 (5th Cir. 2008). Yet, in *Air Measurement* and *Immunocept*, the Federal Circuit failed to conduct more than a cursory attempt at applying the *Grable* factors.

Only opinions of the United States Supreme Court are binding on this Court. See *Penrod Drilling Corp. v. Williams*, 868 S.W.2d 294, 296 (Tex. 1993). Therefore, we are not required to follow the Federal Circuit's view of federal patent jurisdiction. We are, however, bound to follow the Supreme Court's pronouncements, *id.*, and they fully support the conclusions drawn by the Fifth Circuit in *Singh* and the court of appeals' judgment in the instant case. The Supreme Court's federal question precedents require that we reject Minton's assertion of exclusive federal jurisdiction over this case, and, with the exception of

*Singh*, the circuit cases on point are contrary to the Supreme Court's opinions and unpersuasive on this point of law. Because federal question jurisprudence does not require the result reached by the Court today, I respectfully dissent.

## I. Analysis

Unlike the courts of this state, federal courts are courts of limited jurisdiction, and thus "due regard for the constitutional allocation of powers between the state and federal systems requires a federal court scrupulously to confine itself to the jurisdiction conferred on it by Congress and permitted by the Constitution." *In re Carter*, 618 F.2d 1093, 1098 (5th Cir. 1980). There are two main types of federal jurisdiction: diversity jurisdiction, and federal question jurisdiction, often also referred to as "arising under" jurisdiction because of the governing constitutional and statutory language. See ERWIN CHEMERINSKY, *FEDERAL JURISDICTION* 266 (5th ed.2007). Federal question jurisdiction is in turn subdivided into (1) cases in which federal law provides a cause of action, and (2) state-law claims that implicate a federal issue. *Grable*, 545 U.S. at 312. It is this latter subtype, often referred to as "embedded" federal-issue cases, CHARLES ALAN WRIGHT ET AL., *FEDERAL PRACTICE AND PROCEDURE* § 3562 at 187 (3d ed. 2008), that is at issue here.

One area of federal question jurisdiction, encompassing both subtypes described above, is that covering

federal intellectual property law, as established by section 1338(a) of the United States Code.<sup>1</sup> See 28 U.S.C. § 1338(a). Specifically, section 1338(a) gives federal courts jurisdiction over cases “arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks.” *Id.* That jurisdiction is exclusive for patent, plant variety protection, and copyright cases. *Id.* Speaking to patent cases particularly, the Supreme Court has explained that section 1338(a) applies:

[O]nly to those cases in which a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff’s right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims.

*Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 809 (1988) (citations omitted).

The above quote is the point of departure for the Court today, and also for the Federal Circuit cases the Court relies on. However, the full inquiry when

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<sup>1</sup> Although much of the Supreme Court’s federal question jurisprudence is in the context of the more general federal question statute, 28 U.S.C. § 1331, sections 1331 and 1338 both have the phrase “arising under” as their operative language, and the Supreme Court applies section 1331 precedent to section 1338 cases. See *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 808-09 (1988); *Air Measurement*, 504 F.3d at 1271.



determining federal question jurisdiction is not so simple: the well-pleaded complaint must “necessarily raise a stated federal issue, actually disputed and substantial, which a federal forum may entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities.” *Grable*, 545 U.S. at 314. In other words, it is *not* enough that the federal issue constitute an element of the plaintiff’s well-pleaded complaint. *See id.* at 313 (“[E]ven when the state action discloses a contested and substantial federal question, the exercise of federal jurisdiction is subject to a possible veto.”); *Singh*, 538 F.3d at 338 (“The fact that a substantial federal question is necessary to the resolution of a state-law claim is not sufficient to permit federal jurisdiction. . . .”). Rather, the Supreme Court has laid out a four-element test for determining whether federal question jurisdiction is proper over a state-law claim with an embedded federal issue (such as this case): “federal question jurisdiction exists where (1) resolving a federal issue is necessary to resolution of the state-law claim; (2) the federal issue is actually disputed; (3) the federal issue is substantial; and (4) federal jurisdiction will not disturb the balance of federal and state judicial responsibilities.” *Singh*, 538 F.3d at 338 (interpreting *Grable*, 545 U.S. at 314). Explicating the final element, the Supreme Court explains that “the federal issue will ultimately qualify for a federal forum only if federal jurisdiction is consistent with congressional judgment about the sound division of labor between state and federal courts.” *Grable*, 545 U.S. at 314. The Supreme Court



further requires: “[T]here must always be an assessment of any disruptive portent in exercising federal jurisdiction.” *Id.* As the Supreme Court explained, “[t]he doctrine captures the commonsense notion that a federal court ought to be able to hear claims recognized under state law that nonetheless turn on substantial questions of federal law, and thus justify resort to the experience, solicitude, and hope of uniformity that a federal forum offers on federal issues.” *Id.* at 312.

*Grable* is a landmark case in this area of jurisprudence, and it should be the touchstone for any court’s analysis of whether embedded question jurisdiction is proper. See CHARLES ALAN WRIGHT ET AL., FEDERAL PRACTICE AND PROCEDURE § 3562 at 197-99 (3d ed. 2008) (“In 2005, the Supreme Court issued its finest effort in this line of cases. . . . In *Grable*, the Court for the first time discussed comprehensively the relevant factors for assessing [embedded question jurisdiction]. . . . *Grable* brings considerable clarity to what had been quite muddled.”). I therefore turn to the analysis required of this Court by *Grable*.<sup>2</sup>

In this case, only the first of the *Grable* elements is potentially met; the other three are not. The federal issue here is neither disputed nor substantial, and

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<sup>2</sup> The Court makes a good faith effort of its own to apply *Grable*, but the outcome of that effort is incorrect because it is conducted through the lens of *Air Measurement* and *Immunocept*.

the exercise of exclusive federal jurisdiction over cases such as this would disrupt the proper balance between the state and federal judiciaries intended by Congress. I address each element in turn.

### **A. Federal Issue Is Not Disputed**

First, the federal issue is not in dispute. The Court and the Federal Circuit have read this element of the *Grable* test as simply requiring some live controversy, effectively making it a mootness requirement. But a review of the roots of the element reveal its true meaning: for the federal issue to be “disputed” under *Grable*, there must be a controversy as to the “‘validity, construction, or effect’” of the federal issue. *Grable*, 545 U.S. at 315 n. 3 (quoting *Shulthis v. McDougal*, 225 U.S. 561, 570 (1912)). The Supreme Court noted “the limiting effect of the requirement that the federal issue in a state-law claim must actually be *in dispute* to justify federal-question jurisdiction,” and cited *Shulthis* as an example where “this Court found that there was no federal-question jurisdiction to hear a plaintiff’s [state law] claim in part because the federal statutes on which [the claim] depended were not subject to ‘any controversy respecting their validity, construction, or effect.’” *Id.* (quoting *Shulthis*, 225 U.S. at 570) (emphasis added).

Here, there is no such controversy. The experimental use exception is well-established in meaning and scope. See *Elizabeth v. Pavement Co.*, 97 U.S.

126, 134-35 (1877) (establishing the exception in 1877); *Electromotive Div. of Gen. Motors Corp. v. Transp. Sys. Div. of Gen. Elec. Co.*, 417 F.3d 1203, 1210-18 (Fed. Cir. 2005) (applying it in its modern form). The parties do not dispute its meaning; they simply dispute whether it was available as a defense in the original patent infringement suit. And that dispute turns on whether the TEXCEN lease concluded between Minton and R.M. Stark & Co. was experimental or commercial in nature – a question to be resolved by reference to the lease and the conduct of the parties, rather than a disputed construction of federal law.

### **B. Federal Issue Is Not Substantial**

The federal issue is also not substantial. The Supreme Court has explained that federal question jurisdiction based on federal law being a “necessary element” of the complaint is limited to a “special and small category” of cases, *Empire Healthchoice Assurance, Inc. v. McVeigh*, 547 U.S. 677, 699 (2006) (citations omitted), and that “it takes more than a federal element ‘to open the “arising under” door,’” *id.* at 701 (quoting *Grable*, 545 U.S. at 313). The Court emphasized that *Grable*, in which interpretation of a federal statutory notice provision was at issue, presented an almost purely legal issue, one whose resolution would both be dispositive in that case, and “controlling in numerous other cases.” *Id.* at 700 (citing *Grable*, 545 U.S. at 313). It was also significant that *Grable* “centered on the action of a federal agency (IRS) and

its compatibility with a federal statute," thus making the issue "'substantial.'" *Id.* (citing *Grable*, 545 U.S. at 313). The Supreme Court has also drawn a line between federal statutory construction issues and other issues such as federal common law. In *Empire*, the United States asserted that the federal issue of whether an insurer's recovery of amounts paid to an insured as a result of an accident should take into account the insured's attorney's fees in obtaining the initial recovery. *Id.* at 701. While the Supreme Court conceded that may be an issue, it refused to find federal jurisdiction because "it is hardly apparent why a proper 'federal-state balance' would place such a nonstatutory issue under the complete governance of federal law, to be declared in a federal forum." *Id.* (citation omitted). The Supreme Court also reaffirmed that state courts are "competent to apply federal law, to the extent it is relevant," in deciding actions under their jurisdiction. *See id.*

Here, the federal issue is not substantial for three reasons the Supreme Court has outlined: (1) the determination is one of fact – not law; (2) it will not result in precedent that controls numerous other cases; and (3) it involves federal common law, not a federal statute. First, the federal issue is whether the experimental use exception was legally and factually available to Minton's attorneys in the underlying patent infringement case. The answer to this question is purely factual and turns on the nature of the *TEXCEN* lease between Minton and R.M. Stark & Co.: was that particular lease for experimental

purposes (thus making the exception available) or for commercial ends (rendering it unavailable)? Because the federal issue is one of fact, it is not substantial. *See Empire*, 547 U.S. at 700-01 (noting that *Grable* claim was subject to federal jurisdiction because it was a “nearly pure issue of law” but that claim at issue in *Empire* was not subject to federal jurisdiction because it was “fact-bound and situation-specific”). Second, the experimental use exception is well defined. It need only be applied to the facts of this case. A determination of whether the experimental use exception applies to the lease will not result in an important precedent. *Id.* at 700 (citing *Grable*, 545 U.S. at 313) (noting that *Grable* claim was subject to federal jurisdiction because it “would be controlling in numerous other cases” but that claim at issue in *Empire* was not subject to federal jurisdiction because the bottom-line practical issue was the share of settlement property from a state court proceeding). Third, the experimental use exception is a creature of federal common law, not of any statute. *See id.* (noting that *Grable* claim was subject to federal jurisdiction because it involved a federal statute and IRS action but that claim at issue in *Empire* was not subject to federal jurisdiction because it involved a federal common law determination in a state law claim). Because the federal issue here is one of fact (not law), will not control numerous other cases, and involves only federal common law and not a federal statute, the federal issue here is not substantial.



### **C. The Court's Holding Upsets the Division Between Federal and State Courts**

Finally, the Court's holding today upsets the division between federal and state courts envisioned by Congress. Legal malpractice, along with the regulation of the practice of law generally, has traditionally been a matter for the states. *See Singh*, 538 F.3d at 339 ("Legal malpractice has traditionally been the domain of state law, and federal law rarely interferes with the power of state authorities to regulate the practice of law."). It was not the purpose of Congress to encroach on this state sphere when it enacted section 1338; rather, the plain language of the statute simply indicates an intent to assure federal jurisdiction over, and uniform interpretation of, federal intellectual property law. It is only under the gloss applied to that language by later decisions of the Federal Circuit that we could imagine that a legal malpractice action "arises under" patent law. Common sense tells us that this is a matter for state courts. And our sense on this matter is confirmed by the oft-quoted wisdom of Justice Cardozo:

What is needed is something of that common-sense accommodation of judgment to kaleidoscopic situations which characterizes the law in its treatment of causation. . . . If we follow the ascent far enough, countless claims of right can be discovered to have their source or their operative limits in the provisions of a federal statute or in the Constitution itself with its circumambient restrictions upon legislative power. To set

bounds to the pursuit, the courts have formulated the distinction between controversies that are basic, and those that are collateral, between disputes that are necessary and those that are merely possible.

*Gully v. First Nat. Bank in Meridian*, 299 U.S. 109, 117-18 (1936), *quoted with approval in Grable*, 545 U.S. at 313.

In Justice Cardozo's terms, the federal issue here is collateral, not basic. This is a legal malpractice case, litigated after final judgment in the original, federal case. Resolution of the malpractice claim in question does not impact any live patent law claims. *Cf. Singh*, 538 F.3d at 341 (noting that a legal malpractice action "will in no way disturb or interfere with the judgments of the federal courts" regarding the underlying federal intellectual property lawsuit). Moreover, it is unlikely that the legal malpractice opinions of Texas courts will in any way disrupt the uniformity of patent law that Congress sought by enacting section 1338; on the merits of actual patent lawsuits, federal courts will no doubt look first to federal patent precedents, not Texas legal malpractice cases.

Unfortunately, the Federal Circuit has not remained faithful to the Supreme Court's federalism inquiry in the context of malpractice decisions arising from patent cases. Instead, under the Federal Circuit's approach, the federalism element is simply an invocation of the need for uniformity in patent law. In *Air Measurement*, the federalism discussion was

limited to the benefits of a federal forum, the need for uniformity in patent law, and the fact that patents are issued by a federal agency. *See Air Measurement*, 504 F.3d at 1272. There was no consideration of what effect asserting exclusive federal jurisdiction would have over the balance between the state and federal judiciaries intended by Congress. *See id.*; *see also USPPS* 647 F.3d at 281 n. 4 (“*Air Measurement Technologies* is silent as to the *Grable* question of federalism. . . .”). Rather, the court simply noted “[i]n § 1338, Congress considered the federal-state division of labor and struck a balance in favor of this court’s entertaining patent infringement.” *Air Measurement*, 504 F.3d at 1272. Of course, there is no doubt that Congress wants the Federal Circuit to “entertain[] patent infringement,” but that is not the issue under *Grable*’s federalism analysis: what is required is a consideration of the impact on our federal system.

In *Immunocept*, application of the *Grable* factors, and particularly the federalism analysis, was equally cursory. The Federal Circuit concluded that the federalism element was met simply because litigants benefit from the expertise of federal judges, and Congress intended to “remove non-uniformity in the patent law.” *Immunocept*, 504 F.3d at 1285-86. Again, there was no consideration of the impact on the balance between state and federal courts, as required

by the Supreme Court in precedents such as *Grable* and *Empire*.<sup>3</sup>

This is particularly disheartening given the potential consequences on the division between state and federal courts beyond the purview of patent disputes. The impact of the Court's decision on other potential types of embedded question cases is relevant in conducting the federalism inquiry required in this case. *See Grable*, 545 U.S. at 317 (“[I]n exploring the outer reaches of § 1331, determinations about federal jurisdiction require sensitive judgments about congressional intent, judicial power, and the federal system.”) (quoting *Merrell Dow Pharm. Inc. v. Thompson*, 478 U.S. 804, 810 (1986)). In *Merrell Dow*, the Supreme Court found the federal balance was upset in a case, as here, where there was no federal cause of action. *See Grable*, 545 U.S. at 318-19. The Court noted that asserting federal jurisdiction over the state law claim at issue “would have attracted a horde of original filings and removal cases raising other state claims with embedded federal issues.” *Id.* at 318. “For if the federal labeling standard without a federal cause of action could get a state claim into

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<sup>3</sup> In *Davis v. Brouse McDowell, L.P.A.*, 596 F.3d 1355 (Fed. Cir. 2010), a legal malpractice case derived from a patent application, the Federal Circuit went even further and neither cited *Grable* nor mentioned its factors at all. *See generally id.* This approach was repeated in *Warrior Sports*, another patent-law legal malpractice case, which likewise made no mention of *Grable* or federalism. *See generally Warrior Sports, Inc. v. Dickinson Wright, P.L.L.C.*, 631 F.3d 1367 (Fed. Cir. 2011).

federal court, so could any other federal standard without a federal cause of action. And that would have meant a tremendous number of cases.” *Id.*

This point is telling, because the Supreme Court’s fears have already been realized in *USPPS*. There, the Fifth Circuit adopted the reasoning applied by the Federal Circuit in *Air Measurement* and *Immunocept* to reach the same outcome in a fraud and breach of fiduciary duty case involving patent law. See *USPPS*, 647 F.3d at 284.<sup>4</sup> Put another way, the reach of the Federal Circuit’s section 1338

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<sup>4</sup> Although the Fifth Circuit previously expressed skepticism about the Federal Circuit’s approach, and declined to apply it to a legal-malpractice case involving trademarks and section 1338, see *Singh*, 538 F.3d at 340, it recently adopted the *Air Measurement/Immunocept* reasoning, see *USPPS*, 647 F.3d at 278-81. Although *USPPS* mentioned the treatment of *Grable* (described above) found in *Air Measurement* and *Immunocept*, and promised to be “sensitive” to federalism issues, see *id.* at 278 n. 1, *USPPS* contains no federalism analysis of its own. See generally *id.* Rather, the *USPPS* opinion simply quoted *Immunocept* on the federal interest in patent law uniformity, and then applied as binding precedent the Fifth Circuit’s own opinion in *Scherbatskoy v. Halliburton Co.*, 125 F.3d 288, 291 (5th Cir. 1997). See *USPPS*, 647 F.3d at 282. *Scherbatskoy* in turn conducted no federalism analysis, see 125 F.3d at 291; but that is unsurprising because it was decided some eight years prior to *Grable*. Given *Grable*’s landmark status, it is thus curious that *USPPS* relies so heavily on *Scherbatskoy* on this point. Other than stating “[i]n so holding, we conform . . . to *Singh*’s requirement of balancing the federal and state interests involved,” *USPPS* made no other analysis of the *Grable* factors, thus carrying forward the Federal Circuit’s misguided approach. 647 F.3d at 282.



reasoning is uncabined, and can potentially sweep any state law case that touches on substantive patent law (or, for that matter, the other areas of law covered by section 1338, such as copyright and trademarks) irrevocably into federal court.

In contrast to *Air Measurement* and *Immunocept*, *Singh* correctly applied the Supreme Court's federal question jurisprudence governing embedded question cases to a section 1338 trademark legal malpractice case, with a proper analysis of the federalism element. *Singh* discussed at length the *Grable* factors of substantialness and federalism. *See Singh*, 538 F.3d at 337-41. As for the first, the court noted that trademark law has an entirely different purpose from state malpractice law, and further that the trademark issue in question was predominantly one of fact, not law, rendering the trademark issue insubstantial under *Grable*. *Id.* at 339. *Singh* then conducted a careful and substantive federalism analysis, one that considered the impact on the division of labor between state and federal courts. *See id.* at 339-40. The court observed that legal malpractice traditionally is a state law matter, and that "federal law rarely interferes with the power of state authorities to regulate the practice of law." *Id.* at 339. The court further observed that exerting federal jurisdiction would "constitute a substantial usurpation of state authority in an area in which states have traditionally been dominant." *Id.* The court also expressed concern, echoing the Supreme Court's fears in *Grable* and *Merrell Dow*, that adopting such reasoning in one type of federal question case could lead to its application in

other types of embedded question cases.<sup>6</sup> *See id.* at 340 (“Because all Texas malpractice plaintiffs must prove that they would have prevailed in their prior suits, federal jurisdiction could extend to every

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<sup>6</sup> The *Singh* court is certainly not the only court to have examined the *Grable* factors and concluded that there is no exclusive federal jurisdiction over claims such as this. *See, e.g., New Tek Mfg., Inc. v. Beehner*, 702 N.W.2d 336 (Neb. 2005) (finding no federal jurisdiction over malpractice claim and holding “[w]hen patent issues are merely implicated incidentally in a cause of action, however, federal courts do not have jurisdiction of the case pursuant to § 1338”); *E-Pass Tech., Inc. v. Moses & Singer, LLP*, 189 Cal. App. 4th 1140, 1152 (Cal. Ct. App. 2010), review denied (Feb. 23, 2011) (finding no federal jurisdiction over malpractice claim and holding that “to the extent that the subject matter of patent law is relevant to the determination of the professional negligence claim, it does not present a question of patent law that is substantial”) (citations omitted); *Roof Technical Servs., Inc. v. Hill*, 679 F. Supp. 2d 749, 753-54 (N.D. Tex. 2010) (finding no federal jurisdiction over malpractice claim and holding “even if the court must decide patent law issues, those decisions will not create or destroy any patent rights such that uniformity in the way patents are issued or enforced will be threatened”); *Genelink Biosciences, Inc. v. Colby*, 722 F. Supp. 2d 592 (D. N.J. 2010) (finding no federal jurisdiction over malpractice claim involving patent law); *Danner, Inc. v. Foley & Lardner, LLP*, No. 09-1220-JE, 2010 WL 2608292, at \*5 (D. Or. Mar. 15, 2010) (finding no federal jurisdiction over malpractice claim and holding that because “plaintiff’s malpractice claim . . . is supported by theories that do not depend on patent law or the resolution of patent issues, its claim does not ‘arise’ under patent laws”); *Anderson v. Johnson*, No. 08-CV-6202, 2009 WL 2244622, at \*3 (N.D. Ill. July 27, 2009) (finding no federal jurisdiction over malpractice claim and holding that a “federal court’s adjudication of [a] state malpractice claim [involving copyright law] would disturb the balance of federal and state judicial responsibilities”).

instance in which a lawyer commits alleged malpractice during the litigation of a federal claim.”). As mentioned previously, this concern has ironically been borne out in *USPPS*, a subsequent Fifth Circuit case that applied the Federal Circuit’s reasoning in patent law malpractice cases to a fraud and breach of fiduciary duty case. *See USPPS*, 647 F.3d at 278-81.

In sum, the cases relied on by the Court are not persuasive authority because they either ignore the standard required by United States Supreme Court precedent or apply it in a conclusory manner. The Court therefore errs when it concludes, based on the importance of uniformity in patent law emphasized in *Air Measurement* and *Immunocept*, that the balance between state and federal courts is not upset by allowing jurisdiction here.

## II. Conclusion

The Federal Circuit has pursued a particular mandate – to achieve uniformity in patent law. *Panduit Corp.*, 744 F.2d at 1574 (“This court . . . has a mandate to achieve uniformity in patent matters.”). The Federal Circuit appears to be animated by this goal when finding section 1338 jurisdiction over state legal malpractice claims. *See Immunocept*, 504 F.3d at 1285; *Air Measurement*, 504 F.3d at 1272. The Federal Circuit’s focus on this mandate is understandable, but uniformity in patent law is not the be-all and end-all of jurisprudence. It must give way to the contours of federal question jurisdiction provided by the Supreme Court. *See Grable*, 545 U.S. at 312-15.

In turn, this Court has its own mandate, of at least equal importance to that of the Federal Circuit. We owe a duty to the people of this state to exercise the judicial power, *see* TEX. CONST. art. V, §§ 1, 3, and that duty includes vital matters such as ensuring consistency and certainty in the civil law of the state, *see* TEX. GOV'T CODE § 22.001, and regulating the practice of law, *id.* § 81.011(c). Accordingly, we should not risk the confusion and inconsistency that will result from having two sets of binding precedent in Texas legal malpractice law – one stemming from this Court and the other courts of this state, and another, entirely outside of our control after today's opinion, developing under the direction of the Federal Circuit, largely uninformed by the deep roots of Texas jurisprudence and the requirements of the Texas Constitution.

This Court should not be quick to follow Federal Circuit case law that fails to follow the test set forth by the Supreme Court. Because this case fails to meet three of the four elements required by the Supreme Court for federal-element “arising under” jurisdiction, the court of appeals was correct when it held that exclusive federal patent jurisdiction does not lie here. I therefore respectfully dissent.

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Eva M. Guzman  
Justice

**OPINION DELIVERED: December 16, 2011**

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[SEAL]

**COURT OF APPEALS  
SECOND DISTRICT OF TEXAS  
FORT WORTH  
NO. 2-06-443-CV**

VERNON F. MINTON,

APPELLANT

V.

JERRY W. GUNN, INDIVIDUALLY;  
WILLIAMS SQUIRE & WREN, LLP;  
JAMES E. WREN, INDIVIDUALLY;  
SLUSSER & FROST, L.L.P.;  
WILLIAM C. SLUSSER,  
INDIVIDUALLY; SLUSSER  
WILSON & PARTRIDGE LLP;  
AND MICHAEL E. WILSON,  
INDIVIDUALLY,

APPELLEES

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FROM THE 48TH DISTRICT COURT  
OF TARRANT COUNTY

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**OPINION**  
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This is a legal malpractice case in which the trial court rendered take-nothing summary judgment against appellant Vernon F. Minton in favor of appellees Jerry W. Gunn, individually, Williams Squire & Wren, LLP, James E. Wren, individually, Slusser & Frost, L.L.P., William C. Slusser, individually, Slusser



Wilson & Partridge LLP, and Michael E. Wilson, individually, all of whom represented appellant in a prior patent infringement action. We affirm.

## **I. Brief Summary of Relevant Patent Law Rules**

### **A. The On Sale Bar Rule**

This legal malpractice case involves application of a rule of federal patent law commonly referred to as the “on sale bar rule.” This rule provides that a patent is invalid if it was put into commercial use through a commercial offer for sale more than one year before the inventor applied for the patent.<sup>1</sup> Under federal patent law, the date one year prior to the patent application’s filing is commonly referred to as the “critical date.”<sup>2</sup> A single commercial offer for

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<sup>1</sup> *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 67, 119 S. Ct. 304, 311-12 (1998); *Electromotive Div. of Gen. Motors Corp. v. Transp. Sys. Div. of Gen. Elec. Co.*, 417 F.3d 1203, 1209 (Fed. Cir. 2005). The on sale bar is statutorily grounded in 35 U.S.C. § 102(b), which states:

A person shall be entitled to a patent unless –

....

(b) the invention was . . . on sale in this country, more than one year prior to the date of the application for patent in the United States. . . .

35 U.S.C.A. § 102(b) (2001).

<sup>2</sup> *Baker Oil Tools, Inc. v. Geo Vann, Inc.*, 828 F.2d 1558, 1563 (Fed. Cir. 1987).

sale before the critical date is generally sufficient to satisfy the on sale bar.<sup>3</sup>

### **B. The Experimental Use Doctrine**

This case also involves the “experimental use doctrine.” This doctrine provides that if the purpose of an offer for sale is primarily experimental, as opposed to commercial, the patent is not invalidated under the on sale bar rule.<sup>4</sup>

The ultimate question of whether a transaction is primarily for experimental use is one for the court to decide.<sup>5</sup> When patent holders or inventors contend that the experimental use doctrine applies, they are arguing that the on sale bar does not apply because it has been negated by the primarily experimental purpose of the commercial offer for sale.<sup>6</sup>

In determining whether the experimental use doctrine negates application of the on sale bar, the controlling issue is the purpose of the offer for sale,

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<sup>3</sup> See, e.g., *Pfaff*, 525 U.S. at 67, 119 S. Ct. at 311; *Electromotive*, 417 F.3d at 1209; *Paragon Podiatry Lab., Inc. v. KLM Labs., Inc.*, 984 F.2d 1182, 1188 (Fed. Cir. 1993) (per curiam).

<sup>4</sup> See, e.g., *Electromotive*, 417 F.3d at 1210.

<sup>5</sup> See *EZ Dock v. Schafer Sys., Inc.*, 276 F.3d 1347, 1351-52 (Fed. Cir. 2002); see also *Petrolite Corp. v. Baker Hughes Inc.*, 96 F.3d 1423, 1426 (Fed. Cir. 1996) (“Experimental use is a question of law to be analyzed based on the totality of the surrounding circumstances.”).

<sup>6</sup> See, e.g., *Pfaff*, 525 U.S. at 67, 119 S. Ct. at 311; *Electromotive*, 417 F.3d at 1213.

not the developmental status of the claimed invention.<sup>7</sup> In other words, the question posed by the experimental use doctrine is not whether the invention is “under development, subject to testing, or otherwise still in its experimental stage” at the time of alleged sale, but whether the primary purpose of the inventor at the time of the sale was to conduct experimentation.<sup>8</sup> “Commercial exploitation, if not incidental to the primary purpose of experimentation, will result in an on sale bar, even if the invention was still in its experimental stage.”<sup>9</sup>

## II. Factual and Procedural Background

### A. The TEXTCEN Lease

In the early 1990s, appellant Vernon Minton, a former securities broker, formed a company called Texas International Stock Exchange, Inc. (TISE) and began developing a telecommunications network and software program called the Texas Computer Exchange Network (TEXTCEN). TEXTCEN was designed to allow individuals to trade securities through a computer network.

In 1994, Minton approached R.M. Stark & Co. (Stark), a National Association of Securities Dealers,

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<sup>7</sup> *Allen Eng'g Corp. v. Bartell Indus., Inc.*, 299 F.3d 1336, 1354 (Fed. Cir. 2002); *Scaltech Inc. v. Retec/Tetra, L.L.C.*, 178 F.3d 1378, 1384 n.1 (Fed. Cir. 1999).

<sup>8</sup> *Allen Eng'g*, 299 F.3d at 1354.

<sup>9</sup> *Scaltech*, 178 F.3d at 1384 n.1.

Inc. (NASD) brokerage/dealer, regarding a potential lease of the *TEXCEN* system. In January 1995, Minton sent Stark a letter stating that "[a]fter five years of development, *TEXCEN* is scheduled to be on-line during March or April of this year," and that, "[a]s we discussed, [TISE] would appreciate your consideration in utilizing this program as an exclusive opportunity for enhanced order flow." Minton attached a draft lease agreement that stated it was intended "for the purpose of opening brokerage accounts and executing trades for individuals using *TEXCEN*."

Throughout negotiations, Minton never told Stark that the *TEXCEN* lease would be for experimental purposes, although Stark was aware that the system needed to be reviewed and approved by NASD before he could use it. Stark and TISE entered the *TEXCEN* lease on March 8, 1995 (the *TEXCEN* Lease). The lease provided in part that (1) Stark had the right to open brokerage accounts and execute trades for its individual customers using *TEXCEN*, (2) *TEXCEN* would perform in a workmanlike manner, and (3) Stark would pay the lesser of \$2,000.00 or thirty percent of his gross revenues derived from *TEXCEN* per month for the term of the lease.

### **B. The '643 Patent**

On June 28, 1996, Minton filed his provisional application for United States Patent No. 6,014,643 (the '643 Patent), more than one year after signing

the TEXTCEN Lease. The '643 Patent was for an interactive securities trading system based substantially on TEXTCEN. Indeed, Minton stated in his deposition that he provided a copy of the TEXTCEN software assistance guide to his patent attorney, who used it to prepare the '643 Patent application. On January 11, 2000, the United States Patent and Trademark Office issued the '643 Patent.

### **C. The Underlying Patent Litigation**

Minton filed suit against NASD in the United States District Court for the Eastern District of Texas to enforce the '643 Patent (the Patent Litigation), and later named NASDAQ Stock Market, Inc. (NASDAQ) as an additional defendant. Minton's lawyers in the Patent Litigation, the appellees in this case, filed suit without knowledge of the TEXTCEN Lease. Minton did not disclose the lease to appellees until after NASD and NASDAQ first revealed its existence in discovery conducted in the Patent Litigation.

NASD and NASDAQ moved for summary judgment on Minton's infringement claims on the ground that the '643 Patent was invalid under the on sale bar set forth in 35 U.S.C. § 102(b). They specifically contended that TEXTCEN embodied Minton's invention and that the lease, signed March 8, 1995, was a commercial offer for sale prior to the '643 Patent's critical date of June 28, 1995. Appellees contend that, among other things, NASD and NASDAQ asserted that the TEXTCEN Lease: (1) stated that TEXTCEN



was already developed; (2) offered TEXTCEN for use with customers; (3) established payment terms; (4) warranted that TEXTCEN would perform; and (5) stated that the lease was entered for the purpose of allowing individuals to open brokerage accounts and execute trades.

Minton testified in the Patent Litigation that he expected to “benefit financially” from the lease and that, subject to regulatory approval, the lease allowed Stark to use TEXTCEN “commercially.” Minton conceded that TEXTCEN was offered for sale more than one year before his patent was filed, but argued that TEXTCEN did not include all of the elements of the ’643 Patent’s claims and thus the on sale bar did not apply. The district court granted NASD and NASDAQ’s motion for summary judgment based upon the on sale bar.

Following the district court’s order, Minton asked his attorneys to consider defense of the on sale bar on a new ground: that the purpose of the TEXTCEN Lease was primarily experimental rather than commercial, and, therefore, the experimental use doctrine negated the on sale bar. A motion for reconsideration was filed on Minton’s behalf, with the experimental use issue briefed by new counsel. The district court considered Minton’s motion but declined to grant reconsideration.<sup>10</sup>

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<sup>10</sup> See *Minton v. Nat’l Ass’n of Sec. Dealers, Inc.*, 336 F.3d 1373, 1379 (Fed. Cir. 2003) (noting that the district court likely

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Minton appealed, and the Federal Circuit affirmed the district court's judgment.<sup>11</sup> The Federal Circuit declined to address the merits of Minton's argument based on the experimental use defense, stating that the district court was within its discretion in deciding not to consider experimental use as a defense and denying Minton's motion for reconsideration, in part because the motion was based on an argument – the experimental use doctrine – that was not previously raised but “has long been a fixture of patent law.”<sup>12</sup>

#### **D. The Legal Malpractice Action**

On August 25, 2004, Minton filed this legal malpractice action against appellees on the ground that they negligently failed to timely plead and brief the experimental use doctrine as a defense to NASD and NASDAQ's showing that the section 102(b) on sale bar invalidated the '643 Patent. Minton alleges that appellees' negligence caused him to lose the Patent Litigation or, in the alternative, caused the Patent Litigation's pretrial dismissal, depriving him of a settlement of \$100,000,000.00.

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denied Minton's motion for reconsideration without considering the newly-raised experimental use defense because it denied Minton's motion “tersely” and “for the reasons previously set forth in the court's memorandum opinion”).

<sup>11</sup> *Id.* at 1374, 1381.

<sup>12</sup> *Id.* at 1379.

Appellees filed no-evidence and traditional motions for summary judgment attacking the causation element of Minton's malpractice claim.<sup>13</sup> Appellees argued that the experimental use exception did not apply to the TEXCEN Lease and, thus, as a matter of law, their alleged failure to timely plead and brief the defense could not have caused Minton harm in the Patent Litigation. The trial court ruled in appellees' favor and rendered a take-nothing judgment on all claims.<sup>14</sup> This appeal followed.

### **III. Issues on Appeal**

Minton presents ten complaints challenging the trial court's summary judgment:

- (1) The trial court erred in ruling that the issue of whether the TEXCEN Lease was primarily for the purposes of experimental use was a question of law.

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<sup>13</sup> See Tex. R. Civ. P. 166a(c), (i).

<sup>14</sup> Appellees filed two joint motions, each seeking no-evidence and traditional summary judgments. The second joint motion was filed in response to Minton's first amended original petition, which added a new damages theory – that Minton would have settled the Patent Litigation for at least \$100,000,000.00 if his claims in that suit had not been dismissed on summary judgment under the on sale bar. Minton's response to the second joint motion offered no new argument or evidence, but merely incorporated by reference his briefing and evidence filed in response to appellees' first joint summary judgment motion. The trial court granted the relief sought in both joint motions.

- (2) The trial court erred as a matter of law by merely holding that the TEXTCEN Lease had a commercial purpose rather than holding that the TEXTCEN Lease's purpose was "primarily" commercial.
- (3) The trial court erred in concluding as a matter of law that the TEXTCEN Lease had a commercial purpose.
- (4) The trial court erred by improperly limiting the application of the experimental use exception to situations where the testing had to be on a required claim of the patent.
- (5) The trial court erred in not considering testing of the invention that was not limited to the internet.
- (6) The trial court erred as a matter of law by concluding that expert testimony was required to support the experimental use exception.
- (7) The trial court erred by concluding that there was no evidence to support the experimental use exception.
- (8) The trial court erred as a matter of law by concluding that any evidence tending to show the experimental use exception must be limited to the period up to and including June 28, 1996, the date of the '643 Patent application.
- (9) The trial court abused its discretion in striking Minton's exhibits 32a, 32b, 39,

and 40 as hearsay even though they met the hearsay exception for business records.

- (10) The trial court's legal and evidentiary errors probably caused the rendition of an improper judgment and probably prevented Minton from properly presenting the case to this court.

In a single cross-point, appellees complain of the trial court's refusal to strike from the summary judgment record certain evidence submitted by Minton of alleged experimental use.

Before addressing the merits of these complaints, we must decide whether we have subject matter jurisdiction over this case.

#### **IV. Subject Matter Jurisdiction**

Relying primarily on two decisions of the Federal Circuit,<sup>15</sup> and a decision of the Fifth Circuit that does not involve a legal malpractice claim,<sup>16</sup> Minton

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<sup>15</sup> *Air Measurement Techs., Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 504 F.3d 1262 (Fed. Cir. 2007) (holding that state law claim for legal malpractice involving prior patent law litigation "arises under" federal law); *Immunocept, LLC v. Fulbright & Jaworski, LLP*, 504 F.3d 1281 (Fed. Cir. 2007) (same).

<sup>16</sup> *Scherbatskoy v. Halliburton Co.*, 125 F.3d 288 (5th Cir. 1997) (holding that an action arises under federal patent law, conferring exclusive federal jurisdiction, when resolution of state

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contends that we must dismiss this appeal for lack of subject matter jurisdiction because Minton's legal malpractice claim "arises under" the exclusive patent law jurisdiction of the federal courts. We disagree and conclude that Minton's claim does not confer exclusive subject matter jurisdiction on the federal courts.

Under Texas law, "[w]hen a legal malpractice claim arises from earlier litigation, the plaintiff . . . bears the burden to prove he would have prevailed on the underlying cause of action."<sup>17</sup> In other words, the plaintiff must prove a case within a case.<sup>18</sup> Thus, Minton's ability to recover turns on whether he can prove by a preponderance of the evidence that the appellees' allegedly negligent failure to timely plead and brief "experimental use" caused the dismissal of his patent infringement claims in the Patent Litigation.

A federal question exists "only [in] those cases in which a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal

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claims for breach of contract and fiduciary duty depends on application of federal patent laws).

<sup>17</sup> *Williams v. Briscoe*, 137 S.W.3d 120, 124 (Tex. App. – Houston [1st Dist.] 2004, no pet.).

<sup>18</sup> *Alexander v. Turtur & Assocs., Inc.*, 146 S.W.3d 113, 117 (Tex. 2004).

patent law.”<sup>19</sup> The fact that treatment of a substantial federal question is necessary to the resolution of a state-law claim is not, however, sufficient to permit federal jurisdiction. “[T]he presence of a disputed federal issue [in a state cause of action] . . . [is] never necessarily dispositive.”<sup>20</sup> Instead, “the question is, does a state-law claim necessarily raise a stated federal issue, actually disputed and substantial, which a federal forum may entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities.”<sup>21</sup> “In other words, federal question jurisdiction exists where (1) resolving a federal issue is necessary to resolution of the state-law claim; (2) the federal issue is actually disputed; (3) the federal issue is substantial; and (4) federal jurisdiction will not disturb the balance of federal and state judicial responsibilities.”<sup>22</sup> While the first and second elements of this test may be satisfied here, the third and fourth are not.

The federal issue here is not substantial. Although significant to Minton’s claim, the issue of

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<sup>19</sup> *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 809, 108 S. Ct. 2166, 2174 (1988).

<sup>20</sup> *Grable & Sons Metal Prods., Inc. v. Darue Eng’g & Mfg.*, 545 U.S. 308, 314, 125 S. Ct. 2363, 2368 (2005); see *Merrell Dow Pharms. Inc. v. Thompson*, 478 U.S. 804, 813-14, 106 S. Ct. 3229, 3234-35 (1986).

<sup>21</sup> *Grable*, 545 U.S. at 314, 125 S. Ct. at 2368.

<sup>22</sup> *Singh v. Duane Morris LLP*, 538 F.3d 334, 338 (5th Cir. 2008).

whether there was evidence of experimental use of the technology at issue is predominantly one of fact, with little or no precedential value. Therefore, resolution of the issue will not require “resort to the experience, solicitude, and hope of uniformity that a federal forum offers.”<sup>23</sup> The courts of this state are perfectly capable of deciding cases such as this.

Not only is the federal law issue insubstantial, but the exercise of federal jurisdiction over this state-law malpractice claim would disturb the balance between federal and state judicial responsibilities. “Legal malpractice has traditionally been the domain of state law, and federal law rarely interferes with the power of state authorities to regulate the practice of law.”<sup>24</sup> To extend federal jurisdiction to every instance in which a lawyer commits alleged malpractice during the litigation of a patent claim (or other federal law claim) would “constitute a substantial usurpation of state authority in an area in which states have traditionally been dominant.”<sup>25</sup>

For these reasons, we hold that Minton’s legal malpractice claim does not “arise under” federal law.<sup>26</sup>

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<sup>23</sup> *Grable*, 545 U.S. at 312, 125 S. Ct. at 2367.

<sup>24</sup> *Singh*, 538 F.3d at 339; see also *Custer v. Sweeney*, 89 F.3d 1156, 1167 (4th Cir. 1996).

<sup>25</sup> *Singh*, 538 F.3d at 340.

<sup>26</sup> Our holding should not be construed as suggesting that no legal malpractice claims involving patent litigation could possibly arise under federal law. In fact, it is possible that the

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In so holding, we decline to follow the Federal Circuit's decisions in *Immunocept* and *AMT* for two reasons: First, the Federal Circuit's holdings are not binding on this court. The Supreme Court of Texas has explained that: "While Texas courts may certainly draw upon the precedents of the Fifth Circuit, or any other federal or state court, in determining the appropriate federal rule of decision, they are obligated to follow only higher Texas courts and the United States Supreme Court."<sup>27</sup> Second, we believe the Federal Circuit misapplied United States Supreme Court precedent by disregarding the federalism analysis that the Supreme Court has applied to restrict the scope of federal "arising under" jurisdiction to a "small and special category" of cases where a substantial question of pure federal law is in dispute that has precedential value.<sup>28</sup> According to the United States Supreme Court, claims that are "fact-bound and situation-specific," such as the legal malpractice claim at issue in this case, do not fall within the scope

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federal interest in other legal malpractice cases would be sufficiently more substantial, such that federal jurisdiction would be justified. We hold only that federal jurisdiction does not extend to the legal malpractice claim before us.

<sup>27</sup> *Penrod Drilling Corp. v. Williams*, 868 S.W.2d 294, 296 (Tex. 1993) (emphasis omitted); see also *City of Carrollton v. Singer*, 232 S.W.3d 790, 797 n.6 (Tex. App. – Fort Worth 2007, pet. denied).

<sup>28</sup> See, e.g., *Empire Healthchoice Assurance, Inc. v. McVeigh*, 547 U.S. 677, 699-701, 126 S. Ct. 2121, 2136-37 (2006).

of federal “arising under” jurisdiction.<sup>29</sup> While this result may conflict with Federal Circuit decisions, we are obligated only to follow the rules for determining “arising under” jurisdiction established by the United States Supreme Court.

We now turn to the merits.

## V. Standards of Review

The trial court’s take-nothing summary judgment against Minton was rendered on both traditional and no-evidence motions for summary judgment filed by appellees.

### A. Traditional Summary Judgment

In reviewing a traditional summary judgment, the issue on appeal is whether the movant met the

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<sup>29</sup> *Id.* at 701, 126 S. Ct. at 2137. Minton’s reliance on the Fifth Circuit’s opinion in *Scherbatskoy* is misplaced for similar reasons. *Scherbatskoy* is distinguishable on the facts and was decided prior to the more recent United States Supreme Court decisions that adopted the federalism analysis that governs our decision here. Compare *Scherbatskoy*, 125 F.3d at 291 (finding federal “arising under” jurisdiction in breach of contract claim based solely on the conclusion that the patent issue “is a necessary element” to the resolution of the claim) with *Empire*, 547 U.S. at 701, 126 S. Ct. at 2137 (“[I]t takes more than a federal element ‘to open the arising under door.’”) and *Grable*, 545 U.S. at 313-14, 125 S. Ct. at 2367 (“[T]he federal issue will ultimately qualify for a federal forum only if federal jurisdiction is consistent with congressional judgment about the sound division of labor between state and federal courts.”).



summary judgment burden by establishing that no genuine issue of material fact exists and that the movant is entitled to judgment as a matter of law.<sup>30</sup> The burden of proof is on the movant, and all doubts about the existence of a genuine issue of material fact are resolved against the movant.<sup>31</sup> When reviewing a summary judgment, we take as true all evidence favorable to the nonmovant, and we indulge every reasonable inference and resolve any doubts in the nonmovant's favor.<sup>32</sup> Evidence that favors the movant's position will not be considered unless it is uncontroverted.<sup>33</sup>

A defendant who conclusively negates at least one essential element of a cause of action is entitled to summary judgment on that claim.<sup>34</sup> Once the defendant produces sufficient evidence to establish the right to summary judgment, the burden shifts to the plaintiff to come forward with competent controverting evidence raising a genuine issue of material fact

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<sup>30</sup> Tex. R. Civ. P. 166a(c); *Sw. Elec. Power Co. v. Grant*, 73 S.W.3d 211, 215 (Tex. 2002); *City of Houston v. Clear Creek Basin Auth.*, 589 S.W.2d 671, 678 (Tex. 1979).

<sup>31</sup> *Sw. Elec. Power Co.*, 73 S.W.3d at 215.

<sup>32</sup> *Valence Operating Co. v. Dorsett*, 164 S.W.3d 656, 661 (Tex. 2005).

<sup>33</sup> *Great Am. Reserve Ins. Co. v. San Antonio Plumbing Supply Co.*, 391 S.W.2d 41, 47 (Tex. 1965).

<sup>34</sup> *IHS Cedars Treatment Ctr. of DeSoto, Tex., Inc. v. Mason*, 143 S.W.3d 794, 798 (Tex. 2004).

with regard to the element challenged by the defendant.<sup>35</sup>

### **B. No-Evidence Summary Judgment**

Rule 166a(i) of the Texas Rules of Civil Procedure governs no-evidence summary judgments.<sup>36</sup> Under this rule, after an adequate time for discovery, the party without the burden of proof may, without presenting evidence, move for summary judgment on the ground that there is no evidence to support an essential element of the nonmovant's claim or defense.<sup>37</sup> The motion must specifically state the elements for which there is no evidence.<sup>38</sup> The trial court must grant the motion unless the nonmovant produces summary judgment evidence that raises a genuine issue of material fact.<sup>39</sup>

When reviewing a no-evidence summary judgment, we examine the entire record in the light most favorable to the nonmovant, indulging every reasonable inference and resolving any doubts against the

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<sup>35</sup> *Centeq Realty, Inc. v. Siegler*, 899 S.W.2d 195, 197 (Tex. 1995).

<sup>36</sup> Tex. R. Civ. P. 166a(i).

<sup>37</sup> *Id.*

<sup>38</sup> *Id.*; *Johnson v. Brewer & Pritchard, P.C.*, 73 S.W.3d 193, 207 (Tex. 2002).

<sup>39</sup> See Tex. R. Civ. P. 166a(i) & cmt.; *Sw. Elec. Power Co.*, 73 S.W.3d at 215.

motion.<sup>40</sup> If the nonmovant brings forward more than a scintilla of probative evidence that raises a genuine issue of material fact, then a no-evidence summary judgment is not proper.<sup>41</sup> We review a no-evidence summary judgment for evidence that would enable reasonable and fair-minded jurors to differ in their conclusions.<sup>42</sup>

## VI. Analysis

### **A. The Purpose of the TEXCEN Lease was Commercial and There is No Evidence that the Lease was Primarily for Experimental Use**

The pivotal questions we must decide in reviewing the trial court's summary judgment are: (1) whether the trial court correctly concluded that the TEXCEN Lease had a commercial purpose as a matter of law (2) and whether the trial court correctly found that there is no evidence to support Minton's claim of an experimental purpose for the TEXCEN Lease. We conclude that both trial court rulings are correct.

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<sup>40</sup> *Sudan v. Sudan*, 199 S.W.3d 291, 292 (Tex. 2006).

<sup>41</sup> *Moore v. K Mart Corp.*, 981 S.W.2d 266, 269 (Tex. App. – San Antonio 1998, pet. denied).

<sup>42</sup> *Hamilton v. Wilson*, 249 S.W.3d 425, 426 (Tex. 2008) (citing *City of Keller v. Wilson*, 168 S.W.3d 802, 822 (Tex. 2005)).

**1. The Commercial Purpose of the Lease was Established as a Matter of Law**

The TEXTCEN Lease expressly states that Stark was leasing TEXTCEN for commercial use. In its preamble, the lease provides that "[Stark] . . . wishes to lease *TEXTCEN* from TISE for the purpose of opening brokerage accounts and executing trades for individuals using TEXTCEN." It further requires Stark to pay for the use of TEXTCEN for three years (with an option of up to thirteen years) and warrants that TEXTCEN will perform in a workmanlike manner. There is no language in the lease that indicates that the lease had an experimental purpose.

In addition to the express language of the TEXTCEN Lease, Minton offered deposition testimony in the Patent Litigation which established that the purpose of the lease was commercial:

Q. Okay. And they were – now, they were seeking – still seeking the regulatory approval, correct?

A. Yes, sir.

Q. *But subject to that regulatory approval, what was contemplated was that Stark would set up a system using the TEXTCEN software program and – to use it commercially, correct?*

A. Yes, sir.

Q. And – and that occurred beginning in March 1995, correct?

A. Yes, sir.

Q. *And you expected to benefit financially from that arrangement, correct?*

A. Yes, sir (emphasis added).

Based on the language of the TEXTCEN Lease and Minton's own testimony establishing the commercial purpose of the lease, we hold that the trial court did not err in concluding that the TEXTCEN Lease had a commercial purpose as a matter of law.

**2. There is No Evidence that any Purpose of the TEXTCEN Lease was Experimental**

**a. Minton's Claim of an Alleged Experimental Purpose for the TEXTCEN Lease Does not Relate to a Claimed Element of the '643 Patent**

The trial court concluded, as a matter of law, that the claims of the '643 Patent do not require that the program work over a TCPIP or internet connection and, thus, any evidence of testing over a TCPIP or internet connection is legally irrelevant to show an experimental purpose for the TEXTCEN Lease. We agree with this conclusion.



Under settled patent law, the experimental use doctrine applies only to experimentation that relates to a claimed feature of the invention, either as expressly stated in a claim or inherent to the subject matter of a claim.<sup>43</sup> When evaluating whether a feature is claimed by an invention, courts look to details that are “specifically recited or necessary to the invention covered by the claims in suit.”<sup>44</sup> For example, courts have held that testing for durability may negate application of the on sale bar even when durability is not specifically claimed in the patent, but only if durability is inherent to “the nature of the invention” based on “the claims’ reference to the subject matter.”<sup>45</sup>

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<sup>43</sup> *Electromotive*, 417 F.3d at 1211 (“It is important to recognize that this court has limited experimentation sufficient to negate a pre-critical date public use or commercial sale to cases where the testing was performed to perfect claimed features, or, in a few instances like the case here, to perfect features inherent to the claimed invention.”); *W. Marine Elecs., Inc. v. Furuno Elec. Co.*, 764 F.2d 840, 847 (Fed. Cir. 1985) (“The trial court properly recognized that testing or experimentation performed with respect to non-claimed features of the device does not show that the invention was the subject of experimentation.”); *In re Theis*, 610 F.2d 786, 793 (C.C.P.A. 1979) (“It is settled law that the experimental sale exception does not apply to experiments performed with respect to nonclaimed features of an invention.”).

<sup>44</sup> *Gould Inc. v. United States*, 579 F.2d 571, 582 (Ct. Cl. 1978); see also *Honeywell Intern. Inc. v. Universal Avionics Sys. Corp.*, 488 F.3d 982, 998 (Fed. Cir. 2007).

<sup>45</sup> *EZ Dock*, 276 F.3d at 1351-53; see also *Kolmes v. World Fibers Corp.*, 107 F.3d 1534, 1540 (Fed. Cir. 1997); *Manville*

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Therefore, our inquiry focuses on whether the attributes that Minton testifies were being tested – TEXTCEN's ability to process actual trades over an internet connection – relate to a claimed feature of the '643 Patent. If not, then Minton's testimony regarding this testing will not, as a matter of law, support experimental use.<sup>46</sup>

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*Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 551 (Fed. Cir. 1990).

<sup>46</sup> Minton asserts that the trial court committed error by using this standard because experimental use is supported by any testing needed to convince the inventor that the invention is capable of performing its intended purpose in its intended environment. See *Gould*, 579 F.2d at 583. Testing, however, only supports experimental use in instances where it expressly or inherently relates to a claimed feature. See, e.g., *Kolmes*, 107 F.3d at 1540 (holding testing for durability established experimental use because, based on "the preamble of claim 1 [of the patent]," an "inherent feature" of the invention is "the ability to withstand use in an environment such as a meat-packing plant with repeated laundering"); *Gould*, 579 F.2d at 582 (holding experimental use exception did not apply where "the work done was not directed toward the invention covered by the claims in suit, the overall engine configuration, but was directed toward scaling-up [increasing the output horsepower of] the engine and checking and adjusting the performance of component parts"). Additionally, there is no probative value to an inventor's subjective characterizations of an offer for sale as experimental when first expressed only after a patent infringement action has been filed. See, e.g., *Cargill, Inc. v. Canbra Foods, Ltd.*, 476 F.3d 1359, 1370 (Fed. Cir. 2007); *Electromotive*, 417 F.3d at 1212; *D.L. Auld Co. v. Chroma Graphics Corp.*, 714 F.2d 1144, 1150 (Fed. Cir. 1983) ("[I]f a mere allegation of experimental intent were sufficient, there would rarely if ever be room for summary judgment based on a true 'on sale' defense under 35 U.S.C. § 102(b)."). Subjective assertions of experimental use in Minton's deposition

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Minton contends that testing TEXTCEN over the internet is a claimed feature of the '643 Patent because the patent claims that it will work over "a public communication network" and that the internet is one such network. However, the patent specifies that "[t]he method by which users . . . communicate with [the] server . . . is not important, as the present invention simply requires that the users be able to send and receive information to [the] server."<sup>47</sup> The patent also provides a nonexclusive list of communication methods that may be employed, including "public telephone lines," "cable modems, local area networks [LANs], wireless communications, fiber optics lines, and others."<sup>48</sup>

Because the express language of the '643 Patent conclusively demonstrates that performance over the internet is not inherent to any claimed feature of the patent, we hold that the trial court did not err in concluding that there is no evidence to support Minton's claims of experimental use because evidence of testing over the internet is legally irrelevant to show an experimentation purpose for the TEXTCEN Lease.

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and affidavit testimony generated in the Patent Litigation, including his affidavit testimony that the primary purpose of the TEXTCEN Lease was "to be able to test and further develop the program," are not evidence of experimental use absent supporting objective relevant evidence predating the Patent Litigation.

<sup>47</sup> '643 Patent, col. 7, ll. 25-28.

<sup>48</sup> *Id.* at col. 7, ll. 20, 24-25.

**b. Even Assuming Testing Over the Internet Relates to a Claimed Feature of the '643 Patent, There is no Evidence to Support Minton's Claim that the Purpose of the TEXCEN Lease was Experimental**

The trial court found that, assuming Minton's evidence of testing relating to a TCPIP or internet connection is relevant, Minton still did not produce sufficient evidence to raise a genuine issue of material fact to support his claim of experimental use.<sup>49</sup> We agree with the trial court's finding because Minton presented no probative evidence that Stark was actually aware that the purpose of the offer for sale was primarily experimental when the lease was executed.<sup>50</sup>

The determination of experimental use is an objective inquiry based on the facts surrounding the transaction.<sup>51</sup> Courts have considered a number of objective factors when making an experimental use determination, including, but not limited to:

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<sup>49</sup> If there is no evidence that the TEXCEN Lease had an experimental purpose, then the lease could not have been "primarily" experimental in purpose so as to negate the on sale bar.

<sup>50</sup> See *Cincinnati Life Ins. Co. v. Cates*, 927 S.W.2d 623, 625 (Tex. 1996) (when trial court grants summary judgment on fewer than all grounds asserted, appellate court may affirm summary judgment on other grounds properly raised in the trial court).

<sup>51</sup> *Electromotive*, 417 F.3d at 1210; *Allen Eng'g Corp.*, 299 F.3d at 1354.

(1) the necessity for public testing, (2) the amount of control over the experiment retained by the inventor, (3) the nature of the invention, (4) the length of the test period, (5) whether payment was made, (6) whether there was a secrecy obligation, (7) whether records of the experiment were kept, (8) who conducted the experiment, (9) the degree of commercial exploitation during testing, (10) whether the invention reasonably requires evaluation under actual conditions of use, (11) whether testing was systematically performed, (12) whether the inventor continually monitored the invention during testing, and (13) the nature of contacts made with potential customers.<sup>52</sup>

With regard to the last factor – nature of contacts made with potential customers – the Federal Circuit has held that a customer's awareness that the purpose of the sale was for experimental use is a "critical attribute of experimentation."<sup>53</sup> If an inventor fails to communicate to a customer that the sale of the invention was made in pursuit of experimentation, then the customer, as well as the general public, can only view the sale as a normal commercial transaction.<sup>54</sup> "[An inventor's] failure to communicate to any of the

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<sup>52</sup> *Allen Eng'g Corp.*, 299 F.3d at 1353; see also *Electromotive*, 417 F.3d at 1210.

<sup>53</sup> *Electromotive*, 417 F.3d at 1214.

<sup>54</sup> *In re Dybel*, 524 F.2d 1393, 1401 (C.C.P.A. 1975); see also *Paragon Podiatry Lab.*, 984 F.2d at 1186.



purchasers or prospective purchasers of his device that the sale or offering was for experimental use is fatal to his case.<sup>56</sup> In other words, customer awareness of the sale or offering's experimental purpose is dispositive.<sup>56</sup>

In his deposition testimony, Minton admitted that he never told Stark that the purpose of the TEXCEN Lease was to develop, test, or conduct experimentation on TEXCEN. Indeed, the summary judgment record contains no evidence showing that Stark was aware at the time the lease was executed that it was for experimental purposes. At most, the evidence on which Minton relies to establish Stark's awareness of the lease's experimental purpose merely shows that Stark knew at the time the lease was executed that TEXCEN was under development and that it may require further testing. This evidence does not prove that the purpose of the lease was experimental.<sup>57</sup> Nor does Minton's subjective characterization of the purpose of the lease made after the Patent Litigation constitute sufficient probative

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<sup>55</sup> *In re Dybel*, 524 F.2d at 1401.

<sup>56</sup> See, e.g., *Lough v. Brunswick Corp.*, 86 F.3d 1113, 1120 (Fed. Cir. 1996), *cert. denied*, 522 U.S. 806 (1997); *In re Hamilton*, 882 F.2d 1576, 1581 (Fed. Cir. 1989).

<sup>57</sup> *Allen Eng'g Corp.*, 299 F.3d at 1354; see also *Scaltech*, 178 F.3d at 1384 n.1 ("Commercial exploitation, if not incidental to the primary purpose of experimentation, will result in an on sale bar, even if the invention was still in its experimental stage.").

evidence to establish that Stark was aware of any alleged experimental use.<sup>58</sup>

Because there is no evidence that Stark was aware that the actual purpose of the TEXCEN Lease was experimental, we hold that, even assuming testing over the internet is relevant to a claimed element of the '643 Patent, the trial court did not err in finding that Minton failed to raise a genuine issue of material fact on his claim that the TEXCEN Lease had an experimental purpose. Therefore, as a matter of law, the lease was not *primarily* experimental in purpose and Minton has no defense to the on sale bar under the experimental use doctrine.

## VII. Conclusion

In sum, we hold that Minton's legal malpractice claim does not "arise under" federal law, and that we have jurisdiction over this appeal. We further hold that the trial court did not err in granting appellees' traditional motion for summary judgment based on its conclusion that the TEXCEN Lease had a commercial purpose as a matter of law, and in granting appellees' no-evidence motion for summary judgment

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<sup>58</sup> See, e.g., *Cargill*, 476 F.3d at 1370; *Electromotive*, 417 F.3d at 1212, 1214; *Petrolite*, 96 F.3d at 1427; *Paragon Podiatry Lab.*, 984 F.2d at 1186; *Sinskey v. Pharmacia Ophthalmics, Inc.*, 982 F.2d 494, 499 (Fed. Cir. 1992), *cert. denied*, 508 U.S. 912 (1993); *LaBounty Mfg., Inc. v. United States Int'l Trade Comm'n*, 958 F.2d 1066, 1071-72 (Fed. Cir. 1992); *D.L. Auld Co.*, 714 F.2d at 1150.

on the ground that Minton failed to produce sufficient relevant evidence to raise a genuine issue of material fact to support his claim of experimental use.<sup>59</sup> The trial court's summary judgment is affirmed.

JOHN CAYCE  
CHIEF JUSTICE

PANEL: CAYCE, C.J.; GARDNER and WALKER, JJ.

WALKER, J., filed a dissenting opinion.

DELIVERED: October 8, 2009

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## DISSENTING OPINION

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### I. Introduction

I respectfully dissent. Because the federal courts possess exclusive jurisdiction over Appellant Vernon F. Minton's legal malpractice suit against Appellees Jerry W. Gunn, individually; Williams Squire & Wren, LLP; James E. Wren, individually; Slusser & Frost, L.L.P.; William C. Slusser, individually; Slusser Wilson & Partridge, L.L.P.; and Michael E. Wilson, individually, I would grant Minton's motion to dismiss, vacate the trial court's order granting summary

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<sup>59</sup> In light of these holdings, we need not reach Minton's other issues or appellees' cross-point. See Tex. R. App. P. 47.1.

judgment for Appellees, and remand the case to the trial court for disposition in accordance with this opinion.

## II. FACTS

### A. Minton's Patent Infringement Suit in Federal Court

In the underlying litigation giving rise to Minton's legal malpractice claim, Minton sued NASD and NASDAQ Stock Market, Inc. in the United States District Court for the Eastern District of Texas for patent infringement.<sup>1</sup> The federal trial court granted NASD and NASDAQ's "Motion for Summary Judgment that [the '643 Patent] is Invalid under the 'On Sale' Bar Provision of 35 U.S.C. § 102(b)." *See* 35 U.S.C.A. § 102(b) (West 2001). The trial court granted summary judgment for NASD and NASDAQ based on the on sale bar rule, and the Court of Appeals for the Federal Circuit affirmed the trial court's summary judgment. *See Minton v. Nat'l Ass'n of Sec. Dealers, Inc.*, 336 F.3d 1373, 1381 (Fed. Cir. 2003).

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<sup>1</sup> Minton alleged that NASD and NASDAQ have "infringed and continued to infringe claims 1, 2, 3 and 4" of U.S. Patent No. 6,014,643 (the '643 Patent).

### **B. Minton's Legal Malpractice Suit in State Court**

Minton subsequently filed a legal malpractice suit in state court; his original petition asserted that Appellees, his attorneys in the underlying federal patent infringement suit, negligently did not plead or brief the experimental use exception to the on sale bar rule in an amended petition, in Minton's summary judgment response, or in the response to the trial court's request for briefing. These allegations are the sole basis for Minton's legal malpractice suit; he pleaded that Appellees owed a duty to represent him in his patent infringement suit within the applicable standard of care and that they breached their duty to him by "[f]ailing to timely plead and brief the experimental use defense."

Appellees filed two joint combined traditional and no-evidence motions for summary judgment in Minton's state legal malpractice action asserting that "the record establishes as a matter of law that Defendants' conduct did not proximately cause Minton's alleged damages because Minton would not have been able to successfully defeat the on sale bar either at the summary judgment stage or at trial." The trial court granted both Appellees' joint motions for summary judgment. This appeal followed, and Minton filed a motion to dismiss, alleging that the federal courts possess exclusive jurisdiction over his legal malpractice suit.



### III. THE LAW CONCERNING SECTION 1338 JURISDICTION

The United States Code provides that “[t]he district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents. . . . Such jurisdiction shall be exclusive of the courts of the states in patent . . . cases.” 28 U.S.C.A. § 1338(a) (West 2006).<sup>2</sup> The United States Supreme Court has for nearly 100 years recognized that in certain cases federal question jurisdiction will lie over state law claims that implicate significant federal issues. *Grable & Sons Metal Prods., Inc. v. Darue Eng’g & Mfg.*, 545 U.S. 308, 312, 125 S. Ct. 2363, 2367 (2005).

A significant federal issue is implicated when a well-pleaded complaint establishes that the plaintiff’s right to relief necessarily depends on resolution of a substantial question of federal patent law in that federal law is a necessary element of the well-pleaded complaint. *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 809, 108 S. Ct. 2166, 2174 (1988). The well-pleaded complaint rule is the starting point in analyzing Section 1338 jurisdiction in suits involving patents. *See, e.g., Caterpillar, Inc. v. Williams*, 482 U.S. 386, 392, 107 S. Ct. 2425, 2429 (1987). Under this “well-pleaded complaint” rule, whether the claim arises under federal patent law “‘must be determined from what necessarily appears in the plaintiff’s

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<sup>2</sup> Hereinafter referred to as “Section 1338.”

statement of his own claim . . . unaided by anything alleged in anticipation or avoidance of defenses which it is thought the defendant may interpose.’” *Christianson*, 486 U.S. at 809, 108 S. Ct. at 2174 (quoting *Taylor v. Anderson*, 234 U.S. 74, 75-76, 34 S. Ct. 724, 724 (1914)). The complaint must do more than demonstrate that a question of federal patent law is “lurking in the background.” *Franchise Tax Bd. of State of Cal. v. Constr. Laborers Vacation Trust for S. Cal.*, 463 U.S. 1, 12, 103 S. Ct. 2841, 2847 (1983). A complaint successfully establishes that a plaintiff’s right to relief necessarily depends on a substantial question of patent law and that federal law is a necessary element of the well-pleaded complaint when from the plaintiff’s pleading, it appears that some right or privilege will be defeated by one construction or sustained by the opposite construction of patent laws. *Christianson*, 486 U.S. at 807-08, 108 S. Ct. at 2173.<sup>3</sup> But a pleaded claim supported by

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<sup>3</sup> See also *Univ. of W. Va. Bd. of Trs. v. VanVoorhies*, 278 F.3d 1288, 1295 (Fed. Cir. 2002) (holding Section 1338 jurisdiction existed over state law claim alleging breach of duty to assign a patent because claim required resolution of the disputed patent application); *U.S. Valves, Inc. v. Dray*, 212 F.3d 1368, 1372 (Fed. Cir. 2000) (holding Section 1338 jurisdiction existed over state law breach of contract claim requiring proof of patent infringement); *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1329 (Fed. Cir. 1998) (holding Section 1338 jurisdiction existed over state law claim of injurious falsehood when plaintiff was required to prove invalidity of patent), *overruled in part on other grounds by Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1358-59 (Fed. Cir. 1999), and *cert. denied*, 525 U.S. 1143 (1999); *Scherbatskoy v. Halliburton Co.*, (Continued on following page)

alternative theories in the complaint may not form the basis for Section 1338 jurisdiction unless patent law is essential to each of those theories. *Id.* at 812, 108 S. Ct. at 2175-76 (recognizing, in applying well-pleaded complaint doctrine, that although the patent issue could be an element of the plaintiff's monopolization antitrust theory and plaintiff's group-boycott antitrust theory, plaintiff's complaint also pleaded reasons completely unrelated to the provisions and purposes of federal patent law why the plaintiff might be entitled to the relief sought so that plaintiff's claims did not "arise under" Section 1338).

In determining whether federal question jurisdiction exists, in addition to examining whether a well-pleaded complaint establishes that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law in that federal law is a necessary element of the well-pleaded complaint, courts must also conduct a federalism analysis. *Grable*, 545 U.S. at 313-14, 125 S. Ct. at 2367-68. That is, courts must also examine whether federal court jurisdiction over a state claim implicating a substantial question of federal law is consistent with congressional judgment regarding the proper

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125 F.3d 288, 291 (5th Cir. 1997) (holding Section 1338 jurisdiction existed over state law breach of contract claim when plaintiff was required to prove patent infringement); *Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 986 F.2d 476, 477-78 (Fed. Cir. 1993) (holding Section 1338 jurisdiction existed over state law business disparagement claim that required proof of patent non-infringement).

division of labor between state and federal courts. *Id.* 125 S. Ct. at 2367. Stated another way, courts must inquire whether a federal forum may entertain the state claim raising a disputed, substantial federal issue without disturbing any congressionally approved balance of federal and state judicial responsibilities. *Id.* at 314, 125 S. Ct. at 2368. When Congress has not provided a federal, private remedy for the violation of a particular federal statute, the presence of an issue concerning that statute as an element of a state tort claim is not ordinarily considered “substantial” enough to confer federal question jurisdiction. *See Franchise Tax Bd.*, 463 U.S. at 21-22, 103 S. Ct. at 2852 (holding federal question jurisdiction did not exist over a declaratory judgment suit brought by state taxing authorities concerning the application of a state statute to an ERISA qualified trust); *see also Merrell Dow Pharms. Inc. v. Thompson*, 478 U.S. 804, 814, 106 S. Ct. 3229, 3235 (1986) (holding federal question jurisdiction did not exist over state tort claim that pharmaceutical company had misbranded drug Bendectin in violation of Federal Food, Drug, and Cosmetic Act).

#### **IV. SECTION 1338 JURISDICTION OVER MINTON'S LEGAL MALPRACTICE CLAIM**

##### **A. Minton's Well-Pleaded Complaint**

Starting with a well-pleaded complaint analysis, Minton's petition does establish that his right to relief in his state legal malpractice suit necessarily depends

on resolution of a substantial question of federal patent law. See *Christianson*, 486 U.S. at 809, 108 S. Ct. at 2174. As Appellees and the Majority Opinion acknowledge, to prevail in his legal malpractice claim, Minton must prove a "suit within a suit." See *Alexander v. Turtur Assocs., Inc.*, 146 S.W.3d 113, 117 (Tex. 2004) (articulating suit within a suit requirement). That is, to prevail when the asserted legal malpractice involves the results of prior litigation, the plaintiff bears the additional burden of proving that, "but for" the attorney's breach of duty, he would have won in the underlying litigation and would have been entitled to judgment. See, e.g., *Schlager v. Clements*, 939 S.W.2d 183, 186-87 (Tex.App. – Houston [14th Dist.] 1996, writ denied).

Turning specifically to Minton's original pleading, he asserted one cause of action against Appellees – negligence. He asserted as the sole basis for his negligence pleading one theory of negligence by Appellees – the failure to timely plead and brief the experimental use exception in response to Appellees' assertion of the on sale bar rule. Thus, in his state legal malpractice claim, Minton must prove that "but for" Appellees' alleged negligence, he would have prevailed on every element of his patent infringement suit against NASD and NASDAQ, including application of the experimental use exception to the on sale bar rule and damages from NASD and NASDAQ's alleged infringement and continued infringement of claims 1, 2, 3, and 4 of the '643 Patent.



### **B. A Disputed, Substantial Issue of Federal Patent Law**

When a state legal malpractice claim requires the hypothetical adjudication of the merits of an underlying federal patent infringement lawsuit – that is, trial of the patent infringement suit within the legal malpractice suit – the legal malpractice case presents a disputed, substantial question of federal patent law conferring Section 1338 jurisdiction on the federal courts. See, e.g., *Air Measurement Techs., Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 504 F.3d 1262, 1272-73 (Fed. Cir. 2007)<sup>4</sup> (holding federal courts possessed exclusive Section 1338 jurisdiction over Texas state legal malpractice claim stemming from underlying federal patent infringement suit); *Immunocept, LLC v. Fulbright & Jaworski, LLP*, 504 F.3d 1281, 1284 (Fed. Cir. 2007) (same, stemming from underlying claims for patent infringement, comparison of patent application, and patent scope). That is, when the plaintiff must plead and prove his entire underlying patent infringement suit to satisfy the “but for” causation requirement of his state legal malpractice claim, the state legal malpractice claim presents a disputed, substantial issue of federal patent law. See *AMT*, 504 F.3d at 1272 (explaining that “patent infringement is disputed, for there is no concession by Akin Gump that the [defendants] infringed AMT’s patents, and the issue is substantial, for it is a

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<sup>4</sup> Hereinafter referred to as “AMT.”

necessary element of the malpractice case”); *Immunocept*, 504 F.3d at 1285 (holding that “[b]ecause it is the sole basis of [plaintiff’s state law legal malpractice claim], the claim drafting error is a necessary element of the malpractice cause of action” and triggers Section 1338 jurisdiction). Numerous courts have followed the holdings of *AMT* and *Immunocept*; federal courts have denied motions to remand state legal malpractice claims stemming from underlying patent litigation and state courts have dismissed such actions, holding Section 1338 jurisdiction existed.<sup>5</sup>

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<sup>5</sup> See, e.g., *Tomar Elecs., Inc. v. Watkins*, No. 2:09-cv-00170-PHX-ROS, 2009 WL 2222707, at \*1-2 (D. Ariz. July 23, 2009) (order on motion to remand) (holding federal courts possessed exclusive Section 1338 jurisdiction over state law legal malpractice stemming from patent infringement suit); see also, e.g., *LaBelle v. McGonagle*, No. 07-12097-GAO, 2008 WL 3842998, at \*2-4 (D. Mass. Aug. 15, 2008) (opinion and order, not reported) (same, stemming from negligent failure to file patent application); *Byrne v. Wood, Herron & Evans, LLP*, No. 2: 08-102-DCR, 2008 WL 3833699, at \*4-5 (E.D. Ky. Aug. 13, 2008) (mem. op. and order, not reported) (holding federal courts possessed exclusive Section 1338 jurisdiction over state legal malpractice claim stemming from patent infringement suit); *Lockwood v. Sheppard, Mullin, Richter & Hampton*, 93 Cal. Rptr. 3d 220, 228-29 (Cal. Ct. App. 2009) (holding federal courts possessed exclusive Section 1338 jurisdiction over state law claims stemming from opposing attorney’s alleged action in obtaining patent reexamination); *TattleTale Portable Alarm Sys. v. Calfee, Halter & Griswold, L.L.P.*, No. 08AP-693, 2009 WL 790314, at \*4-5 (Ohio Ct. App. Mar. 26, 2009) (holding federal courts possessed exclusive Section 1338 jurisdiction over state law legal malpractice claim stemming from failure to pay patent maintenance fees or to seek revival of patent).

In summary, it is clear from Minton's legal malpractice pleading that his right to recover from Appellees in his legal malpractice suit will be defeated by one construction or sustained by the opposite construction of the patent laws concerning the on sale bar rule, concerning the experimental use exception, and ultimately concerning NASD's and the NASDAQ's alleged infringement to claims 1, 2, 3 and 4 of the '643 Patent.<sup>6</sup> See *Christianson*, 486 U.S. at 809, 108 S. Ct. at 2174. Minton pleaded no alternative "theories" of recovery in his legal malpractice suit – the sole allegation of negligence against Appellees is that in Minton's patent infringement suit they negligently failed to plead and brief the experimental use exception after NASD and NASDAQ moved for summary judgment on the basis of the on sale bar rule. Thus, application of the well-pleaded complaint doctrine and examination of whether Minton's right

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<sup>6</sup> Both the on sale bar rule and the experimental use exception to the application of the on sale bar rule are part and parcel of Minton's patent infringement lawsuit. See 35 U.S.C.A. § 102(b); *Allen Eng'g Corp. v. Bartell Indus., Inc.*, 299 F.3d 1336, 1353 (Fed. Cir. 2002). They are not stand-alone doctrines or claims that may be plucked from a federal patent infringement lawsuit and, somehow, not present substantial issues of federal patent law when a patent infringement lawsuit itself presents a substantial question of federal patent law triggering Section 1338 jurisdiction. See 28 U.S.C.A. § 1338(a) (providing exclusive, original federal court jurisdiction over "any civil action arising under any Act of Congress relating to patents"); *AMT*, 504 F.3d at 1270 (recognizing that in the case-within-a-case context the on sale bar rule is "not the sort of jurisdiction defeating defense[] contemplated by *Christianson*").

to relief in his state legal malpractice suit necessarily depends on resolution of a substantial question of federal patent law both compel the conclusion that Minton's state legal malpractice claim raises a disputed, substantial issue of federal patent law. See *AMT*, 504 F.3d at 1269 (holding, "[b]ecause proof of patent infringement is necessary to show AMT would have prevailed in the prior litigation, patent infringement is a 'necessary element' of AMT's malpractice claim and therefore apparently presents a substantial question of patent law conferring § 1338 jurisdiction"); *Immunocept*, 504 F.3d at 1285 (recognizing "a determination of patent infringement serves as the basis of § 1338 jurisdiction over related state law claims"); see also *Christianson*, 486 U.S. at 809, 108 S. Ct. at 2174; accord *Marsh v. Austin-Fort Worth Coca-Cola Bottling Co.*, 744 F.2d 1077, 1079 (5th Cir. 1984) (holding Court of Appeals for the Federal Circuit possessed exclusive jurisdiction over summary judgment granted by federal district court for defendants on the basis that plaintiff "lost his patent rights" under 35 U.S.C. § 102 – the on sale bar rule – by displaying his invention at a convention before he applied for a patent even though plaintiff asserted state law claims and filed in federal court based on diversity of citizenship).

### **C. Disagreement with the Majority Opinion's Federal Question Analysis**

The Majority Opinion holds that in Minton's legal malpractice claim "the federal issue is insubstantial."

To reach this holding, despite the plethora of case law specifically addressing Section 1338 jurisdiction in state claims alleging legal malpractice during federal patent litigation,<sup>7</sup> the Majority Opinion chooses to follow *Singh v. Duane Morris, L.L.P.*, 538 F.3d 334, 338 (5th Cir. 2008). *Singh* is a Fifth Circuit case in which legal malpractice was alleged to have occurred during *trademark* litigation. *Id.* The *Singh* opinion itself limited its holding to Section 1338 jurisdiction in suits alleging malpractice during *trademark* litigation and expressly declined to extend its holding to suits alleging malpractice during *patent* litigation. The Fifth Circuit stated,

It is possible that the federal interest in patent cases is sufficiently more substantial, such that it might justify federal jurisdiction. But we need not decide the question before the Federal Circuit [in *AMT*], because it is not before us. We conclude only that jurisdiction does not extend to malpractice claims involving trademark suits like this one.

*Id.* at 340. I cannot agree with the Majority Opinion that the *Singh* opinion, having expressly declined to extend its holding to malpractice claims involving patent suits, has any application to the Section 1338

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<sup>7</sup> See, e.g., *AMT*, 504 F.3d at 1272; *Immunocept*, 504 F.3d at 1285; see also *Tomar Elecs., Inc.*, 2009 WL 2222707, at \*1-2; *LaBelle*, 2008 WL 3842998, at \*2-4; *Byrne*, 2008 WL 3833699, at \*4-5; *TattleTale Portable Alarm Sys.*, 2009 WL 790314, at \*4-5.



jurisdictional analysis of Minton's malpractice claim involving a patent suit.

#### **D. Federalism Analysis**

A determination that a state law claim presents a disputed, substantial issue of federal patent law does not end a Section 1338 jurisdictional query. *Grable*, 545 U.S. at 314, 125 S. Ct. at 2367. As previously mentioned, courts must also examine whether federal court jurisdiction over a state claim implicating a substantial question of federal law is consistent with congressional judgment regarding the proper division of labor between state and federal courts. *Id.* at 314, 125 S. Ct. at 2368.

Moving to the required examination of whether a federal court's exercise of subject matter jurisdiction over Minton's state legal malpractice claim is consistent with congressional judgment regarding the proper division of labor between state and federal courts, the answer is clearly that it is. *See id.* at 314, 125 S. Ct. at 2368. As recognized by the Court of Appeals for the Federal Circuit in determining that Section 1338 jurisdiction existed over a Texas legal malpractice claim stemming from an underlying patent infringement suit – like Minton's,

There is a strong federal interest in the adjudication of patent infringement claims in federal court because patents are issued by a federal agency. The litigants will also benefit from federal judges who have experience in

claim construction and infringement matters. See *Grable*, 545 U.S. at 315, 125 S. Ct. 2363; see also *Lacks Indus., Inc. v. McKechnie Vehicle Components USA, Inc.*, 322 F.3d 1335, 1341 (Fed. Cir. 2003) (stating that patent infringement involves a two-step process where the court first determines the scope and meaning of the asserted claims and then compares the construed claims to the accused product). Under these circumstances, patent infringement justifies “resort to the experience, solicitude, and hope of uniformity that a federal forum offers on federal issues.” *Grable*, 545 U.S. at 312, 125 S. Ct. 2363. In § 1338, Congress considered the federal-state division of labor and struck a balance in favor of this court’s entertaining patent infringement. For us to conclude otherwise would undermine Congress’s expectations.

*AMT*, 504 F.3d at 1272. Likewise, in *Immunocept*, the Court of Appeals for the Federal Circuit reiterated that Congress’s intent to remove non-uniformity in patent law, as evidenced by its enactment of the Federal Courts Improvement Act of 1982, was further indicium that Section 1338 jurisdiction existed over a Texas state legal malpractice claim stemming from attorneys’ alleged negligent claim drafting in a patent application. 504 F.3d at 1285. For the reasons articulated in the *AMT* and the *Immunocept* opinions, by enacting Section 1338, Congress considered the federal-state division of labor and struck a balance in favor of the federal courts for patent infringement

issues. *AMT*, 504 F.3d at 1272; *Immunocept*, 504 F.3d at 1285.

Minton's state suit, unlike the state litigation *Franchise Tax Board* and *Merrell Dow Pharmaceuticals, Inc.*, is not based on a violation of a federal statute for which Congress has provided no private federal remedy. See *Franchise Tax Bd.*, 463 U.S. at 21-22, 103 S. Ct. at 2852 (ERISA); *Merrell Dow Pharms. Inc.*, 478 U.S. at 814, 106 S. Ct. at 3235 (FDCA). Minton's suit is based on alleged malpractice during the pursuit of an authorized, private, exclusively federal remedy for patent infringement. See 28 U.S.C.A. § 1338(a) (granting federal district courts exclusive jurisdiction over patent cases). In fact, Minton must prove his entire private, federal cause of action for patent infringement as an element of his state law claim. Thus, a federalism analysis of Minton's state legal malpractice claim weighs in favor of the congressional intent expressed in Section 1338 that federal courts exercise original, exclusive jurisdiction over patent infringement issues. See *AMT*, 504 F.3d at 1272; *Immunocept*, 504 F.3d at 1285.

#### **E. Disagreement with the Majority Opinion's Federalism Analysis**

The Majority Opinion holds that "the exercise of federal jurisdiction over this [Minton's] state-law malpractice claim would disturb the balance between federal and state judicial responsibilities." Majority Op. at 13. In reaching this conclusion, the Majority

Opinion expressly declines to follow *AMT*'s and *Immunocept*'s federalism analysis for three reasons. First, the Majority Opinion chooses to give no precedential value to the jurisdictional determinations of the Court of Appeals for the Federal Circuit. Second, the Majority Opinion claims that in both *AMT* and *Immunocept*, the Court of Appeals for the Federal Circuit "misapplied United States Supreme Court precedent by disregarding the federalism analysis that the Supreme Court has applied to restrict the scope of federal 'arising under jurisdiction.'" Majority Op. at 14-15. And third, the Majority Opinion summarily concludes that application of the on sale bar rule and the experimental use exception in Minton's state legal malpractice suit are fact-bound and situation-specific issues. I cannot agree with any of these propositions.

Concerning the precedential value to be given the jurisdictional determinations of the Court of Appeals for the Federal Circuit, the Majority Opinion cites *Penrod Drilling Corp. v. Williams*, 868 S.W.2d 294 (Tex. 1993), in support of its decision to give no precedential value to *AMT*'s and *Immunocept*'s federalism analysis. *Penrod Drilling*, however, does not support the Majority Opinion's position. *Penrod Drilling* actually holds that a court of appeals erred by following Fifth Circuit precedent and by summarily disregarding all contrary federal authority, just as the Majority Opinion here does by following the Fifth Circuit's *Singh* decision and disregarding contrary

federal authority. Majority Op. at 11-15; see *Singh*, 868 S.W.2d at 296-97.

Concerning the Majority Opinion's conclusion that in both *AMT* and *Immunocept* the Court of Appeals for the Federal Circuit "misapplied United States Supreme Court precedent by disregarding the federalism analysis that the Supreme Court has applied [in *Grable* and *Empire Healthchoice Assurance, Inc. v. McVeigh*<sup>8</sup>] to restrict the scope of federal 'arising under jurisdiction,'" I simply cannot agree. Both *AMT* and *Immunocept* were decided in 2007 after *Grable* and *Empire*. See *Grable*, 545 U.S. at 308, 125 S. Ct. at 2363 (decided in 2005); *Empire*, 547 U.S. at 677, 126 S. Ct. at 2136-37 (decided in 2006). Moreover, as set forth above, both *AMT* and *Immunocept* actually cite *Grable* and expressly discuss the federalism analysis required by *Grable* and *Empire*. See *AMT*, 504 F.3d at 1272; *Immunocept*, 504 F.3d at 1285. The Majority Opinion does not posit exactly how the federalism analysis of the Court of Appeals for the Federal Circuit is purportedly deficient in *AMT* and in *Immunocept*; no deficiency is apparent to me.

In conducting the required federalism analysis in *AMT*, the Court of Appeals for the Federal Circuit expressly recognized "a strong federal interest in the adjudication of patent infringement claims in federal court because patents are issued by a federal agency."

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<sup>8</sup> 547 U.S. 677, 699-701, 126 S. Ct. 2121, 2137-37 (2006).



*AMT*, 504 F.3d at 1272; see also *Immunocept*, 504 F.3d at 1285. The Court of Appeals for the Federal Circuit explained that “[t]he litigants will also benefit from federal judges who have experience in claim construction and infringement matters.” *AMT*, 504 F.3d at 1272 (citing *Grable*, 545 U.S. at 315, 125 S. Ct. at 2363); see also *Immunocept*, 504 F.3d at 1285 (citing *Grable* and explaining, “Litigants will benefit from federal judges who are used to handling these complicated rules”). The Court of Appeals for the Federal Circuit explicitly stated that a state claim requiring proof of patent infringement justifies “resort to the experience, solicitude, and hope of uniformity that a federal forum offers on federal issues.” *AMT*, 504 F.3d at 1269; see also *Immunocept*, 504 F.3d at 1285 (recognizing that the intent of Congress to remove non-uniformity in the patent laws via the enactment of the Federal Courts Improvement Act of 1982 is a further indication of federal question jurisdiction in a state legal malpractice suit requiring the proof of an entire underlying patent infringement lawsuit). The Court of Appeals for the Federal Circuit noted that “[i]n § 1338, Congress considered the federal-state division of labor and struck a balance in favor of this court’s entertaining patent infringement.” *AMT*, 504 F.3d at 1272; *Immunocept*, 504 F.3d at 1286. Finally, the Court of Appeals for the Federal Circuit in *AMT* held that “[f]or us to conclude otherwise would undermine Congress’s expectations.” *AMT*, 504 F.3d at 1272. Thus, the Court of Appeals for the Federal Circuit in *AMT* and in *Immunocept* did conduct the required federalism analysis and reached the exact

opposite conclusion of the Majority Opinion's holding that "the exercise of federal jurisdiction over this state-law malpractice claim would disturb the balance between federal and state judicial responsibilities." Majority Op. at 13. The Court of Appeals for the Federal Circuit held that the exercise of *state* jurisdiction over a state legal malpractice claim like Minton's requiring a "trial within a trial" of the underlying patent infringement suit would disturb the congressionally mandated balance between federal and state judicial responsibilities. See *AMT*, 504 F.3d at 1272; *Immunocept*, 504 F.3d at 1285-86.

Finally, the Majority Opinion holds that Section 1338 jurisdiction is not triggered because application of the on sale bar rule and the experimental use exception in Minton's legal malpractice claim are "fact-bound and situation-specific" issues. Majority Op. at 15 (citing *Empire*, 547 U.S. at 699-701, 126 S. Ct. at 2136). The "fact-bound and situation-specific" aspect of the Majority Opinion's analysis is clearly incorrect. It puts the cart before the horse; a court cannot look past the jurisdictional issue, examine the merits of state court summary judgment evidence, decide that issues are fact-bound and situation-specific, and then use its decision on the merits to retroactively defeat Section 1338 jurisdiction. Instead, as outlined above, Section 1338 jurisdiction is to be determined based on the well-pleaded complaint doctrine and a federalism analysis, not on summary judgment evidence or non-evidence or the fact that the case was subsequently disposed of by

summary judgment. *See Lockwood*, 93 Cal. Rptr. 3d at 228-29 (explaining that trial court should have dismissed for lack of subject matter jurisdiction, not granted summary judgment, and rejecting defense's argument that these two outcomes are equivalent). For these reasons, I cannot agree with the Majority Opinion's federalism analysis.

## V. CONCLUSION

I would hold that the federal courts possess Section 1338 jurisdiction over Minton's state legal malpractice suit that requires proof of every element of his underlying patent infringement suit. I would grant Minton's motion to dismiss, vacate the trial court's order granting summary judgment for Appellees, and remand the case to the trial court for disposition in accordance with this opinion.

SUE WALKER  
JUSTICE

DELIVERED: October 8, 2009

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App. 95

[SEAL]

**COURT OF APPEALS  
SECOND DISTRICT OF TEXAS  
FORT WORTH  
NO. 2-06-443-CV**

VERNON F. MINTON

APPELLANT

V.

JERRY W. GUNN,  
INDIVIDUALLY; WILLIAMS  
SQUIRE & WREN, LLP; JAMES  
E. WREN, INDIVIDUALLY;  
SLUSSER & FROST, L.L.P.;  
WILLIAM C. SLUSSER,  
INDIVIDUALLY; SLUSSER  
WILSON & PARTRIDGE LLP;  
AND MICHAEL E. WILSON,  
INDIVIDUALLY

APPELLEES

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FROM THE 48TH DISTRICT COURT  
OF TARRANT COUNTY

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**ORDER**

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After considering appellant's Motion for Rehearing En Banc, we deny the motion. See Tex. R. App. P. 41.2(a), (c), 49.7; *Saenz v. Fid. & Guar. Ins. Underwriters*, 925 S.W.2d 607, 612 (Tex. 1996) ("[I]f the vote

on a motion for rehearing or motion for rehearing en banc is evenly divided, . . . the motion fails.").

The clerk of this court is directed to transmit a copy of this order to the attorneys of record.

DATED January 15, 2010.

PER CURIAM

EN BANC

LIVINGSTON, WALKER, and MCCOY, JJ., would grant.

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# **OPPOSITION BRIEF**

JUN 13 2012

OFFICE OF THE CLERK

No. 11-1118

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**IN THE  
SUPREME COURT OF THE UNITED STATES**

-----◆-----  
**JERRY W. GUNN, INDIVIDUALLY, WILLIAMS SQUIRE &  
WREN, L.L.P., JAMES E. WREN, INDIVIDUALLY,  
SLUSSER & FROST, L.L.P., WILLIAM C. SLUSSER,  
INDIVIDUALLY, SLUSSER, WILSON & PARTRIDGE,  
L.L.P., AND MICHAEL E. WILSON, INDIVIDUALLY,**  
*Petitioners*

v.

**VERNON F. MINTON**  
*Respondent*

-----◆-----  
**On Petition for Writ of Certiorari  
To The Supreme Court of Texas**  
-----◆-----

**BRIEF IN OPPOSITION**

-----◆-----  
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## QUESTIONS PRESENTED

Minton filed a legal malpractice claim against the Attorneys arising from a patent infringement lawsuit. Do federal courts have exclusive "arising under" jurisdiction where the sole substantive issue is the application of a patent law doctrine which is an essential element of Minton's malpractice claim?

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## RESPONDENT'S BRIEF IN OPPOSITION



### STATEMENT OF THE CASE

Vernon Minton ("Minton") is a computer programmer and an inventor. On January 27, 2000, U.S. Patent Number 6,014,643 was issued to Minton (the '643 Patent). The '643 Patent covers Minton's invention of a method and network for trading securities over a public communication network.<sup>1</sup> This method allowed for orders to purchase or sell securities to be gathered and then transmitted over a public communications network where the orders, listed by price and quantity, would then be displayed to individual users on a graphic interface.<sup>2</sup>

Minton then hired the Petitioners to act as his attorneys (hereinafter the "Attorneys") and pursue a patent infringement case ("The Patent Infringement Case") against the National Association of Securities Dealers, Inc. ("NASD") and the NASDAQ Stock Market, Inc. ("NASDAQ").

In The Patent Infringement Case, NASD and NASDAQ principally defended Minton's patent infringement claim on the ground that Minton's '643 Patent was invalid because of the "on-sale bar" doctrine contained in 35 U.S.C. § 102(b), which states that "an invention is not entitled to a patent if the invention was ... on sale in this country more than one year prior to the date of the application in the United States." The

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<sup>1</sup> 13CR 2176-77; 5CR 898.

<sup>2</sup> 13CR 2176-77; 5CR 898.

Attorneys asserted that Minton had entered into a lease primarily for commercial purpose which would qualify as a sale that would bar Minton's claim. The lease was referred to as the "TEXCEN Lease."<sup>3</sup>

The Attorneys failed to timely raise the "experimental use" exception in response to NASD and NASDAQ's claims, and the U.S. District Court granted NASD's and NASDAQ's motion for summary judgment based on the "on sale bar doctrine." A fundamental exception to the on-sale bar, the experimental use exception allows an invention to be marketed or sold for testing purposes, as long as it is not being primarily marketed for purposes of profit.

Consequently, Minton brought this malpractice action against the Attorneys primarily alleging that they negligently represented him in The Patent Infringement Case by failing to plead and brief the experimental use defense.<sup>4</sup>

In the trial court below, the Attorneys filed Traditional and No-Evidence Motions for Summary Judgment on the sole issue of the application of the federal patent law doctrine, the "on sale bar."<sup>5</sup> The trial court denied most of the Attorneys' Traditional Motion for Summary Judgment, but granted the No-Evidence Motion for Summary Judgment.<sup>6</sup> Minton appealed this decision to the Second District Court of Appeals in Fort Worth, Texas.

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<sup>3</sup> 6CR 985-990.

<sup>4</sup> 13CR 2176.

<sup>5</sup> Volumes 2, 3, and 4 of CR.

<sup>6</sup> 15CR 2527-2531.

While this appeal was pending before the court of appeals, the Federal Circuit Court of Appeals handed down two cases holding that Federal courts have exclusive jurisdiction over cases similar to this one, cases of a state legal malpractice claim filed over The Patent Infringement Case. *Air Measurement Technologies, Inc., North South Corporation, and Louis Heerberte Stumberg v. Akin Gump Straus Hauer & Feld, L.L.P.*, 504 F.3d 1262 (Fed.Cir. 2007), and *Immunocept, LLC v. Fulbright & Jaworski, LLP*, 504 F.3d 1281 (Fed.Cir. 2007). On December 6, 2007, Minton filed a Motion to Dismiss Appeal because of lack of jurisdiction. A split panel denied Minton's Motion to Dismiss and affirmed the trial court's judgment. *Minton v. Gunn*, 301 S.W.3d 702 (Tex.App.—Fort Worth 2009) *rev'd*, 355 S.W.3d 634 (Tex. 2011).

The Texas Supreme Court, however, reversed the court of appeals and found that Minton's claims were subject to exclusive federal jurisdiction. *Minton v. Gunn*, 355 S.W.3d 634 (Tex. 2011). Applying this Court's decisions in *Grable & Sons Metal Prods., Inc. v. Darue Eng'g & Mfg.*, 545 U.S. 308 (2005) and *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800 (1988), the Texas Supreme Court found that the federal patent issue involved here is "necessary, disputed, and substantial within the context of the overlying state legal malpractice lawsuit." *Minton*, 355 S.W.3d at 647. The Court further found that this case could be decided in a federal court without upsetting the jurisdictional balance between state and federal courts. *Id.*



## REASONS FOR DENYING THE PETITION

The Attorney's petition should be denied because the Texas Supreme Court, in this case, the Federal Circuit Court of Appeals, in *Air Measurement Tech., Inc. v. Akin Gump Strause Hauer & Feld, L.L.P.*, 504 F.3d 1262 (Fed.Cir. 2007) and *Immunocept, L.L.C. v. Fulbright & Jaworski, L.L.P.*, 504 F.3d 1281 (Fed.Cir. 2007), and numerous other state and federal courts, in cases addressed herein, have correctly integrated and applied this Court's decisions in *Grable & Sons Metal Products, Inc. v. Darue Eng'g & Mfg.*, 545 U.S. 308 (2005) and *Christianson v. Colt Industries Operating Corporation*, 48 U.S. 800 (1988) in determining that exclusive federal jurisdiction applies to state legal malpractice claims involving underlying issues of substantial patent law. These decisions were made with a careful eye to the balance of state and federal concerns, and with the importance of maintaining a uniform, nationwide body of patent law in mind.

The Attorneys allege that the Texas Supreme Court's decision will sweep a broad class of state law claims through the door of federal "arising under" jurisdiction. But *Christianson* and *Grable* already answer the questions raised by the Attorneys and which the Federal Circuit has clarified more specifically with regard to legal malpractice claims arising from patent law matters. *Christianson* held that in order to be substantial, the federal issue must be a necessary element of the plaintiff's claim. In this case, it is undisputed that an essential element of Minton's claim was the application of the on-sale bar doctrine, an exclusive federal patent law doctrine.

Next, *Grable* held that the federal issue must be disputed. In this case, the parties and the lower courts hotly disputed the application of federal patent law, including the claim construction of the patent, the application of the thirteen part test relating to the exception to the on-sale bar rule, and whether the thirteen part test was a question of law or fact, along with other disputed federal patent law issues.

Finally, *Grable* and the Federal Circuit have addressed the balance of federalism. These cases all take into consideration Congress' policy of the importance of creating and maintaining a uniform, nationwide body of patent law. And, with the recent passage and enactment of the America Invents Act, Congress has again echoed its pronouncement that patent law is a unique area of law and is to be treated exclusively as a federal law issue.

The Attorneys' "sky is falling" argument is made without any factual or evidentiary support and should be disregarded. Further, their argument ignores the self-limiting nature of cases that will meet the requirements for exclusive federal court jurisdiction as articulated in *Christianson* and *Grable*. The Attorneys are also wrong in arguing that this case cannot affect any patent rights; this case will affect patent rights. A decision ultimately made in this case regarding the application of the experimental use exception will affect future cases addressing the experimental use exception.

The Texas Supreme Court was correct in deciding that exclusive federal jurisdiction applies to Minton's claim of legal malpractice, in which the only disputed issue is that of substantial patent law. This



Court should deny the Attorney's request for review of that decision.

- I. **This case satisfies the test set forth in the *Grable* and *Christianson* decisions, as the federal patent law issue is disputed, substantial, and does not upset the balance of state and federal interests.**

*Grable & Sons Metal Products, Inc. v. Darue Eng'g & Mfg.*, 545 U.S. 308 (2005) provides a standard for "arising under" jurisdiction under 28 U.S.C. § 1331 which holds that the federal issue must be (a) actually disputed, (b) substantial, and (c) one "which a federal forum may entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities." *Grable*, 545 U.S. at 314. *Christianson* held that a federal patent issue was substantial where it was a necessary element of one of the well-pleaded claims. *Christianson*, 486 U.S. at 808-809.<sup>7</sup>

The federal patent law issue here meets all of those requirements. Application of the "experimental use" exception to the on-sale bar doctrine is the *only* disputed issue here, and thus a federal issue is "actually disputed." In addition to that, it is substantial as it is a necessary element of Minton's claims. And, because of the heightened importance placed on maintaining a uniform body of patent law, application of federal exclusive jurisdiction will not upset the balance of state and federal interests.

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<sup>7</sup> The Texas Supreme Court uses the four-prong test set forth by *Singh v. Duane Morris, LLP*, 538 F.3d 334, 338 (5th Cir. 2008). However, *Singh*, a decision by the Fifth Circuit, does not take into account this Court's decision in *Christianson*.

- II. The requirement that a patent law issue be "disputed" does not mean that the issue must be one that is precedential. Application of the experimental use exception is obviously disputed by the parties here.

The Attorneys and the dissenting justices of the Texas Supreme Court misinterpret the requirement put forth by *Grable* that a federal law issue must be "disputed" in order to justify opening the "arising under" door. Both seem to argue that the requirement is that the area of federal law must not be established or set, or that determination of the issue by the federal court will set a precedent in that area of law.

The dissenting opinion from the Texas Supreme Court and the Attorneys rely upon the 1912 decision by this Court in *Shulthis v. McDougal*, 225 U.S. 561, 32 S.Ct. 704, 56 L.Ed. 1205 (1912). However, *Grable* remarks upon the evolution of federal question jurisdiction and its development prior to and since *Shulthis*. It does not adopt outright *Shulthis*' statement that the federal issue must "involve a dispute or controversy respecting the validity, construction, or effect of [federal] law." *Grable*, 125 S.Ct. at 313 (citing *Shulthis*, 32 S.Ct. at 704). But even if it did, the parties in this case are certainly disputing the effect of federal law on Minton's legal malpractice claim. The *Shulthis* decision is part of a long line of Supreme Court cases regarding federal question jurisdiction which, in the words of Justice Cardozo, require a "common sense accommodation of judgment to [the] kaleidoscopic situations' that present a federal issue." *Grable*, 125 S.Ct. at 313 (citing *Gully v. First Nat. Bank in Meridian*, 299 U.S. 109, 117-118, 57 S.Ct. 96, 81 L.Ed. 70 (1936)).

*Grable* goes on to conclude that the federal issue at stake was an essential element of the plaintiff's quiet title claim, "and the meaning of the federal statute is actually in dispute; it appears to be the only legal or factual issue contested in the case." 125 S.Ct. at 315. That is exactly the issue in this case. The only disputed issue is the application of the experimental use exception to the federal on-sale bar rule.

As stated in *Air Measurement Tech.*:

*Grable* did not hold that only state law claims that involve constructions of federal statute or pure questions of law belonged in the federal court. Instead, the holding was based on the substantiality and federalism factors, such as the Government as a party, the experience of federal judges in handling tax matters, and the microscopic effect of the case, which tipped the federalism balance in favor of federal question jurisdiction. Here, the patent infringement aspect of the malpractice claim counsels in favor of federal jurisdiction.

*Air Measurement Tech.*, 504 F.3d at 1272. Accordingly, the Federal Circuit did not have to determine that the federal patent law issue in *Air Measurement Tech.* was unsettled. Rather, the Federal Circuit did exactly what this Court required. It determined that since the case involved a disputed issue of patent infringement exclusive jurisdiction was warranted. The same is true in the instant case.

There is no authority for the proposition that in order for a disputed issue to be substantial, it must be an issue of first impression. An example of a situation where a patent law issue has been found not to be disputed is where the issue has already been decided in a prior case. For instance, in the case of *Magnetek, Inc. v. Kirkland and Ellis, L.L.P.*, 2011 IL App (1st) 101067, 954 N.E.2d 803, 819, *reh'g denied* (July 28, 2011), *appeal allowed*, 962 N.E.2d 483 (Ill. 2011), the court found exclusive federal jurisdiction did not apply where the issues of the underlying case “case within a case” had been litigated in a separate but related case. *Magnetek* was a legal malpractice claim based upon the claimed failure of attorneys to discover pertinent and readily available evidence which would have influenced *Magnetek's* decision to settle the underlying case. Although the legal malpractice claim would have involved a determination of patent infringement using the undiscovered evidence, the court did not find exclusive federal jurisdiction applied because the exact patent at issue had already been declared invalid by another court in *Nilssen v. Osram Sylvania, Inc.*, 504 F.3d 1223 (Fed.Cir. 2007). Because the case had already been fought and decided, the issue was not “disputed” as required for exclusive federal jurisdiction.

Furthermore, the patent law that is at issue and must be applied in this case is not straightforward at all and has been vigorously fought over by the parties. For example, the majority in the court of appeals' decision held that customer awareness that the purpose of a sale was for experimental use is dispositive in a case such as the one at hand. *Minton*, 301 S.W.3d at 714. And although the Federal Circuit has stated customer awareness is a “critical attribute of experimentation,” it has also found experimental



purpose where there was no evidence presented of the customer knowing the experimental nature of the product usage and affirmed a jury's finding on experimental use where the only testimony regarding customer awareness was a co-inventor's testimony he "believed" the mechanics knew it was experimental. *Electromotive Division of General Motors Corp. v. Transportation Systems Division of General Electric Co.*, 417 F.3d 1203 (Fed.Cir.2005) (customer awareness is "especially important"), *but see also, EZ Dock*, 276 F.3d 1347, 1358 (Lynn, J. concurring)(experimental purpose found where no evidence regarding customer awareness was presented).

The parties also argued over whether the issue of experimental use is properly considered as a question of fact or as a question of law. The majority in the court of appeals' decision found the issue of experimental use had been established as a matter of law. *Minton*, 301 S.W.3d at 711-712. The Attorneys' arguments in this respect have cited cases holding the application of the on sale bar is one of law. *See, Enzo Biochem, Inc. v. Gen-Probe, Inc.*, 424 F.3d 1276 (Fed. Cir. 2005) ("Whether an invention is 'on sale' within the meaning of 35 U.S.C. § 102(b) is a question of law that we review *de novo*"). This contradicts holdings by federal courts that the issue of experimental use is an issue of fact. *See Monon Corp. v. Stoughton Trailers, Inc.*, 239 F.3d 1253, 1257-1258 (Fed.Cir.2001)("Beyond question, the facts underlying each of the two conditions [including whether the accused transaction was primarily experimental or commercial] are issues of fact. [E]vidence that the public use or sale of the patented device was primarily experimental may negate an assertion of invalidity. . . . Consistent with this approach, we first determine whether *Monon* has



raised a genuine issue of fact material to the determination of whether its admitted December 19, 1983 sale of the first plate trailer to Continental was primarily experimental.”). *See Crystal Semiconductor Corp. v. TriTech Microelectronics Intern., Inc.*, 246 F.3d 1336, 1352-1353 (Fed.Cir.2001)(“[A] reasonable jury deserved to weigh the facts and determine whether Crystal’s ‘841 patent is subject to an on-sale bar.”); *Lisle*, 398 F.2d at 1316-17 (affirming jury’s verdict where “reasonable jury could have found that [patent challenger’s] prima facie case of public use was rebutted” by patent owner’s evidence of experimental use). *EZ Dock, Inc. v. Schafer Systems, Inc.*, 276 F.3d 1347, 1353-54 (Fed.Cir.2002)(reversing summary judgment where patent owner “presented adequate evidence for a reasonable jury to find satisfied the factual predicate for experimental use”).

The application of this Court’s precedent and the Federal Circuit’s precedent regarding the experimental use exception has also been fought over vigorously in this case. In *Pfaff v. Wells*, 525 U.S. 55, 67, 119 S.Ct. 304, 142 L.Ed. 261 (1998), this Court set forth a two-prong test: “First, the product must be the subject of a commercial offer of sale... Second, the invention must be ready for patenting.” The Federal Circuit has also set out a set of thirteen factors to be weighed by the trier of fact in determining whether a particular use is primarily experimental versus primarily commercial. *Seal-Flex, Inc. v. Athletic Track and Court Construction*, 98 F.3d 1318, 1323 (Fed.Cir. 1996). These factors include: (1) the necessity for public testing, (2) the amount of control over the experiment retained by the inventor, (3) the nature of the invention, (4) the length of the test period, (5) whether payment was made, (6) whether there was a secrecy obligation, (7)

whether records of the experiment were kept, (8) who conducted the experiment, (9) the degree of commercial exploitation during testing, (10) does the invention reasonably require evaluation under actual conditions of use, (11) was testing systematically performed, (12) did the inventor continually monitor the invention during testing, and (13) the nature of contacts made with potential customers. *Id.* The parties have argued vigorously over how these factors are to be applied and weighed in this case.

The trial court also struggled in applying federal patent law, and decided, without any authority from any area of federal patent law, that expert testimony was required to prove the experimental use exception would have applied. No case in the Federal Circuit has ever found that expert testimony is a required element of negating the defendant's burden to prove sale occurred by "clear and convincing" evidence.

Finally, the parties also disputed the claim construction of Minton's '643 Patent. The Fort Worth Court of Appeals held that there was no evidence of an experimental purpose of the TEXCEN Lease relating to a claimed element of the '643 Patent. *Minton v. Gunn*, 301 S.W. 3d 702 (Tex.App.—Fort Worth 2010, pet. granted and rev'd). The issue of whether the TEXCEN Lease related to a claimed element of the '643 Patent was hotly contested. Conducting an analysis of a claim construction of a patent is at the very heart of patent law. In fact, the attorneys, Minton, and the Fort Worth Court of Appeals relied exclusively and entirely on federal case law and statute to resolve the merits of the case.

Here, the patent law issue of patent infringement, and more specifically the application of the experimental use exception to the on sale bar, is certainly disputed. It was the basis of the Attorneys' Motion for Summary Judgment at the trial court level, as well as the entire basis of Minton's initial appeal of the trial court's decision to the court of appeals. It still remains the only issue in this case other than the jurisdictional arguments being made here. For these reasons, this case meets the first prong of the *Grable* test for federal question jurisdiction.

**III. The federal patent law issue here is substantial because it is a necessary element of Minton's well-pleaded claims.**

In *Christianson*, this Court explained the test for determining whether a federal patent law issue was "substantial" enough to warrant "arising under" jurisdiction under 28 U.S.C. § 1338:

A district court's federal-question jurisdiction [under § 1331], we recently explained, extends over 'only those cases in which a well-pleaded complaint establishes either that federal law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal law,' *Franchise Tax Board of California v. Construction Laborers Vacation Trust*, 463 U.S. 1, 27-28, 103 S.Ct. 2841, 2856, 77 L.Ed.2d 420 (1983), in that 'federal law is a necessary element of one of the well-pleaded... claims.' Linguistic consistency, to which we have historically adhered,

demands that § 1338(a) jurisdiction likewise extend only to those cases in which a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims.

In other words, the "plaintiff must set up some right, title, or interest under the patent laws, or at least make it appear that some right or privilege will be defeated by one construction, or sustained by the opposite construction of these laws." *Id.* (citing *Pratt v. Paris Gas Light & Coke Co.*, 168 U.S. 255, 259, 18 S.Ct. 62, 64, 42 L.Ed. 458 (1897)).

This is exactly the case here: the success or failure of Minton's claim for legal malpractice is entirely dependent upon whether he can show that he would have succeeded in his patent infringement claim if the experimental use exception had been argued by the Attorneys. There is no other way for Minton to recover against the Attorneys.<sup>8</sup>

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<sup>8</sup> The dissent of the Texas Supreme Court and the Attorneys rely upon the "interpretation" of *Grable* by *Singh* of the test to be applied in determining federal question jurisdiction. However, this wrongfully distorts the decisions of this Court in *Grable* and *Christianson* and relies instead upon a lower court, the Fifth Circuit. While *Singh* treats as a separate factor whether the federal issue is a necessary element of the state law claim, this Court, in *Christianson*, provided that a patent law issue is substantial where "patent law is a necessary element of one of the well-pleaded claims." Compare, *Singh v. Duane Morris L.L.P.*, 538 F.3d 334, 338 (5th Cir. 2008)(interpreting the *Grable* test as requiring: (1) the federal issue is a necessary element of the



The Illinois case of *Premier Networks, Inc., v. Stadheim and Grear, Ltd.*, 395 Ill. App. 3d 629, 636 (2009), in deciding not to follow the Nebraska Supreme Court's holding in *New Tek Manufacturing, Inc. v. Beehner*, 270 Neb. 264, 702 N.W.2d 336 (2005), provides useful insight into the issue of "substantiality" of a patent law issue in a state malpractice claim. The Illinois court points out that although the Nebraska court found the patent law issues involved in the case were not substantial, it nonetheless "found that it necessarily had to discuss and analyze in detail the nuances of patent law in order to decide whether legal malpractice had been committed. In other words, the Nebraska Supreme Court's analysis clearly went to the very heart of patent law and therefore was, as the defendant in that case argued, clearly within the scope of 28 U.S.C. § 1338's jurisdiction." *Premier Networks*, 395 Ill. App. 3d at 636. Patent law was a necessary element of the plaintiff's claims in the *New Tek* case, requiring the court to decide whether the plaintiff's patent had been infringed upon. *New Tek*, 702 N.W.2d at 343-44. As the *Premier Networks* decision pointed out, the *New Tek* court erroneously held the issue was insubstantial even though it was such a necessary element.

Similarly, in this case, the court of appeals majority and the trial court both delved into the nuances of patent law in making their decisions. The court of appeals, although it iterated that the Federal

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claim; (2) the federal issue is disputed; (3) the federal issue is substantial; and (4) federal jurisdiction will not upset the balance of federal and state interests), to *Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800, 808-09 (1988)(holding a patent law issue is substantial where it is a necessary element of the claim).



Circuit's decisions are not binding upon it, nonetheless went on to cite to more than 15 patent law decisions from either the Federal Circuit, its predecessor, the Court of Customs and Patent Appeals, or Supreme Court decisions arising from Federal Circuit decisions. *Minton*, 301 S.W.3d at 702-715. The parties have also argued at length over the nuances of federal patent law in their arguments over the substance of this case, each citing more than 30 cases from those same courts. On the other hand, no state law cases were cited by either court or either party in arguing the patent law issues.

This case meets the "substantiality" prong as initially defined in *Christianson* and carried forward in *Grable*. Again, the Attorneys' Motion for Summary Judgment was limited to the application of the on-sale bar and its experimental use exception. The success of Minton's claims succeeds or fails solely on the basis of the application and construction of federal patent law to his claim of infringement. There is no alternative theory of recovery. As such, the issue of patent law presented here is substantial.

**IV. Application of exclusive federal jurisdiction to this case does not disturb the balance of state and federal concerns.**

- A. Congress has thoroughly established and recently confirmed that there is a strong interest in establishing and maintaining the uniform interpretation of federal patent laws.**

The broad theme of the [Federal Courts Improvement Act enacting Section

1295(a)(1)] – increasing nationwide uniformity in certain fields of national law—is epitomized here in the field of patent law.

*Aero Jet-General Corp. v. Machine Tool Works*, 895 F.2d 736, 744 (Fed. Cir. 1990).

- i. Not only did Congress give federal courts exclusive jurisdiction over patent law cases, but it also created a special nationwide court of appeals to hear all appeals in patent law cases.

Congress has long made clear its intent that maintaining a uniform, nationwide body of patent law is an important public policy. Because of the importance of national uniformity when it comes to patent law issues, Congress gave federal courts *exclusive* jurisdiction over patent cases. 28 U.S.C. § 1338(a). By contrast, Congress elected to allow state courts to exercise concurrent jurisdiction over trademark cases. *Id.*

Further, the importance of the federal policies involving patents is such that Congress also created a special *nationwide* court of appeals - the Federal Circuit - to hear all appeals in patent cases, but not trademark cases. 28 U.S.C. 1295 (a)(1). “The Congressional policy underlying Section 1295(a)(1) was to ensure uniform resolution of patent law disputes.” *DSC Communs. Corp., Inc. v. Pulse Communs., Inc.*, 170 F.2d 1354, 1359 (Fed. Cir. 1999).

Congress did so because of the unique importance of the federal policies involving patents:

[The federal circuit court of appeals] will provide nationwide uniformity in patent law, will make the rules applied in patent litigation more predictable and will eliminate the expensive, time-consuming, and unseemly forum-shopping that characterizes litigation in the field.

*Machine Tool Works*, 895 F.2d at 744, quoting H.R. Rep. No. 312, 97<sup>th</sup> Cong., 1<sup>st</sup> Sess. 41, p. 20 (1981).

It is cases under *patent* law – not cases involving other federal questions such as federal trademark law – over which Congress vested *both* the federal district courts and the Federal Circuit with *exclusive* jurisdiction. As to trademarks, the federal courts have concurrent jurisdiction with the state courts. As to copyrights, the lower federal courts have exclusive jurisdiction, but Congress vested the Federal Circuit Court of Appeals no exclusive jurisdiction over trademark and copyright cases. The clearly expressed will of Congress as to the unique importance of uniform, nationwide, federal determination of patent law issues should be respected.

Not only did Congress provide that the Federal Circuit is to have exclusive nationwide appellate jurisdiction over patent law, but it limited the Federal Circuit's jurisdiction to specific subject matters. The Federal Circuit is limited to hearing cases in the areas of patent, trademark, and copyright law, and certain other very narrowly defined areas of federal law. 28 U.S.C. § 1295. This lack of diversity of the Federal

Circuit's docket allows the justices of the Federal Circuit to be more familiar and comfortable with patent law than other state or federal courts. *See also*, Craig A. Nard, *Toward a Cautious Approach to Obedience: The Role of Scholarship in Federal Circuit Patent Law Jurisprudence*, 39 Hous. L. Rev. 667, 683 (2002) (discussing the specialized nature of patent law and the fact that "the Federal Circuit is more familiar and comfortable with patent law").

This limitation of the Federal Circuit's docket further emphasizes the substantial federal issue of patent law and Congress' intent to maintain a federal body of patent law. Likewise, because federal district courts have exclusive jurisdiction over patent law cases, those judges have substantial experience in patent issues, more so than their state court counterparts. Just as was pointed out in *Air Measurement Tech.*, litigants are able to benefit from the federal judges who are more experienced and familiar with the highly technical and scientific nature of patent law issues and provide consistent, uniform patent law that can be applied uniformly across the country. *Air Measurement Tech.*, 504 F.3d at 1272.

In *Kansas v. Marsh*, 548 U.S. 163, 183, 126 S.Ct. 2516, 165 L.Ed. 2d 429 (2006), this Court explained why it has the ability to review decisions from state courts regarding federal law: "Our principal responsibility under current practice, however, and a primary basis for the Constitution's allowing us to be accorded jurisdiction to review state-court decisions, see Art. III, §2, Cls. 1 and 2, is to ensure the integrity and uniformity of federal law."

This Court should leave intact the clear and direct federal precedent from the Federal Circuit Court of Appeals, the court that Congress intended to have nationwide exclusive jurisdiction to determine patent matters. This Court should not thwart Congress's intent to have a nationwide uniform field of law relating to patent issues and create unnecessary state-federal conflict.

- ii. Through the recently passed America Invents Act, Congress has strengthened its policy that patent law remain a federal law issue that is restricted to being decided exclusively in federal courts.

Many sections of the America Invents Act ("AIA") went into effect in September 2011. These include amendments to sections 1338 and 1295, both of which address federal jurisdiction over patent law claims, and the addition of section 1454, which provides additional guidance regarding removal in cases where patent law issues are raised. Until the recent enactment of the AIA, patent laws had remained largely unchanged since the last major reforms were enacted more than fifty years ago, although amendments had been discussed, proposed, and studied for at least the past decade. These specific jurisdictional statutes which are relevant to the case at hand were largely spurred on by this Court's decision in *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.* 535 U.S. 826, 122 S.Ct. 1889 (2002). *Holmes* held that a compulsory counterclaim which raises a patent law issue was insufficient to invoke federal exclusive jurisdiction. *Id.* at 830. This is because a counterclaim did not fall under the concept of the "well-pleaded complaint." *Id.*



Now, Congress has made clear that even a compulsory counterclaim is sufficient to confer exclusive federal jurisdiction. Addressing the *Holmes* decision, Congress amended 28 U.S.C.A. §1454 to state:

- (a) In general. — A civil action in which **any party** asserts a claim for relief arising under any Act of Congress relating to patents, plant variety protection, or copyrights may be removed to the district court of the United States for the district and division embracing the place where the action is pending.

Additionally, § 1295 was amended expressly to include any compulsory counterclaims arising under patent law within the exclusive jurisdiction of the Federal Circuit. 28 U.S.C. § 1295.

Admittedly, § 1454 and § 1295 do not apply to the case at hand. For one, these amendments did not go into effect until this case was well in the appellate stages. Second, a counterclaim is not at issue here. However, §1454 and the other amendments made by Congress through the AIA are instructive on the basis that it is yet another statement by Congress of the importance of maintaining a uniform body of patent law.

- B. The Attorneys' "sky is falling" approach to the federalism analysis is simply incorrect; Minton is not arguing that any issue of patent law is sufficient to open the "arising under" door.

The Attorneys bring a "sky is falling" approach to the federalism analysis in this case. They allege that the "Federal Circuit's broad sweep of legal malpractice cases into federal court" will not only affect those cases that involve issues of patent law, but of any federal law.<sup>9</sup>

The Attorneys have no support for such an argument. There is no empirical data to support their argument that the decisions in *Air Measurement Tech.* and *Immunocept* have opened the floodgates to allow all sorts of embedded federal question cases into federal courts. The Attorneys again overly rely upon the Fifth Circuit's decision in *Singh* in this respect. *Singh* specifically limits itself to *trademark* law in the context of legal malpractice and, in fact, acknowledges the importance of patent law:

Nor does [the holding in *Air Measurement Tech.*] regarding malpractice in a patent suit directly apply to this case, which involves malpractice in a **trademark** suit.

It is possible that the federal interest in patent cases is sufficiently more substantial, such that it might justify federal jurisdiction. But we need not decide the question before the Federal Circuit, because

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<sup>9</sup> See, Petition for Writ of Certiorari, pp. 16-17.

it is not before us. We conclude only that jurisdiction does not extend to malpractice claims involving trademark suits like this one.

*Singh*, 538 F.3d at 340 (emphasis added). The Attorneys then argue that this is incorrect, by saying that the standard should be the same as for trademark and patent issues, because “the only difference between them is that federal court jurisdiction is exclusive for patent matters but not for trademark matters.”<sup>10</sup> This is an incredible understatement of the difference in the federal concern for patent law issues compared to trademark issues, which is evidenced in the very fact that Congress deemed the difference important enough to warrant exclusive jurisdiction only in patent law issues and the establishment of a separate Federal Circuit Court of Appeals to hear patent law appeals.<sup>11</sup>

The Attorneys’ “sky is falling” approach further ignores the fact that federal courts already have diversity jurisdiction over legal malpractice cases. 28 U.S.C. § 1332(a); *See also, Kovacs v. Chesley*, 406 F.3d 393 (6th Cir. 2005)(finding federal diversity jurisdiction applied to a legal malpractice claim).

Nor is there any support for the Attorneys’ argument that state concerns will be harmed by application of exclusive federal jurisdiction to the case at hand. The state concern in regulating attorneys’ behavior is one of ethical concerns, rather than a concern regarding the substantive issues in the case. There is no allegation in this case that the Attorneys

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<sup>10</sup> *Petition*, p. 19, N1.

<sup>11</sup> *See*, p. 17-20, *supra*.

acted unethically or violated any state bar rule governing the conducts of attorneys. Rather, the allegations of legal malpractice at issue here are ones of substantive patent law claims or defenses that should have been made in the Patent Infringement Case. In any event, state bar violations are governed by state bar rules, not the courts where the case is pending.

Minton is not arguing that just any issue of patent law, or any other issue of federal law, would meet the “substantiality” standard sufficient to open the “arising under” door. For that matter, neither did the Federal Circuit in *Air Measurement Tech.*, in which it stated:

Our decision today follows our precedent. Post *Christianson*, we have held that patent infringement presents a substantial question of federal patent law conferring ‘arising under’ jurisdiction.

*Air Measurement Tech.*, 504 F.3d at 1269. (emphasis added). This follows other decisions as well, in which federal courts have found exclusive jurisdiction did not lie where the patent law was more tangential than a determination of whether infringement did or did not occur. For instance, courts have declined to find the issue substantial where the malpractice allegation was based on a missed deadline. *See, e.g., Genelink Biosciences, Inc. v. Colby*, 2010 WL 2681915, \*5 (D. N.J., July 1, 2010) (“Unlike in the Federal Circuit cases, the resolution of plaintiff’s claim does not seek determination of infringement or claim construction... the standard of care an attorney must provide his client by not missing important deadlines is the same regardless of the subject matter, and not special to the patent law field.”). Here, the only disputed issue is

whether the exception to the on-sale bar rule applied. This amounts to an issue of substantive patent law, more than a missed deadline for filing a patent application.

As stated by the Texas Supreme Court, the opinion issued in this case “should only be construed as conferring exclusive federal patent jurisdiction based upon the specific facts of this case. In the future, just as Minton has done, any state litigant asserting a legal malpractice action to recover for damages resulting from his patent attorney’s negligence in patent prosecution or litigation must also satisfy all four elements of the *Grable* test to place his claim under exclusive federal jurisdiction.” *Minton*, 355 S.W.3d at 646.

- C. Only one state supreme court has found that applying federal exclusive jurisdiction to state legal malpractice claims in a situation similar to this would upset the balance of federalism concerns, whereas many state and federal courts have found otherwise.

The Attorneys again overstate their argument in portraying a portrait of decisions in federal and state courts that they claim “wildly conflict.”<sup>12</sup> The Attorneys are incorrect in stating that some courts have followed the *Grable* standard, while others have followed the reasoning in *Air Measurement Tech.* and *Immunocept*. The two standards are not contradictory, nor are they even two standards – both *Air Measurement Tech.* and *Immunocept* apply the *Grable* test in reaching their

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<sup>12</sup> Petition, p. 18.



decisions. *See, Air Measurement Tech.*, 504 F.3d at 1272 (finding that the patent law issue is disputed, that it is substantial as it is a necessary element of the plaintiff's case, and that it survives the federalism analysis because patent infringement justifies "resort to the experience, solicitude, and hope of uniformity that a federal forum offers on federal issues."); and, *Immunocept*, 504 F.3d at 1285-86 (also applying the *Grable* analysis).

The Attorneys' contention that the state and federal decisions made in the five years since the *Air Measurement Tech.* and *Immunocept* decisions are inconsistent is misplaced. For instance, the Attorneys cite *Magnetek, Inc. v. Kirkland v. Kirkland and Ellis, L.L.P.*, 954 N.E.2d 803, 811-812 (Ill. App. Ct. 2011) as "holding that the *Grable* standard applies," rather than the claimed "Federal Circuit" standard. This is an incorrect statement of the facts of the case in *Magnetek*. As discussed above, the *Magnetek* court found that no disputed issue of patent law existed because the factual issue of the case – patent infringement – had already been decided by another court, which declared the exact same patent was invalid under identical facts. *See, Magnetek*, 954 N.E.2d at 820-21, referring to *Nilssen v. Osram Sylvania, Inc.*, 504 F.3d 1223 (Fed.Cir. 2007). Because the case had already been fought and decided, the issue was not "disputed" as required for exclusive federal jurisdiction.

The Attorneys again overstate the holding in *Singh*, which expressly limits itself to *trademark* cases and states that the federal interest in patent law cases may be heightened in comparison. *See* p. 22-23, *supra*; and, *Singh*, 538 F.3d at 340. The same court that

decided *Singh*, the Fifth Circuit, then confirmed that the federal interest in the area of patent law is in fact heightened in comparison to trademark law. In *USPPS, Ltd. v. Avery Dennison Corp.*, 647 F.3d 274, 281-282 (5th Cir. 2011), the court declined to simply adopt and blindly follow the Federal Circuit's decisions in *Air Measurement Tech.* and *Immunocept*.

It therefore seems clear that, were we to merely apply the Federal Circuit's case law to this appeal, our inquiry would be at an end. Two complications preclude us from that simple resolution, however. First, our Circuit has expressed some skepticism of *Air Measurement Technologies*, see *Singh*, 538 F.3d at 340, and second, we must address USPPS's contention that the prior panel's decision on the merits at the motion-to-dismiss stage constitutes the "law of the case" that jurisdiction is proper before this court.

*USPPS*, 647 F.3d at 281. The Court then goes on to find the federal interest is higher in *USPPS* because of the substantial issue of patent law involved:

*Singh* expressly "decline[d] to follow or extend" *Air Measurement Technologies* and offered two reasons for doing so. *Id.* First, because the Federal Circuit "did not consider the ... federal interest and the effect on federalism" in its opinion. *Id.* Second, because *Air Measurement Technologies* was a patent case, we suggested without expressing an opinion that "[i]t is possible that the federal interest in patent cases is sufficiently more substantial, such that it might justify federal jurisdiction," especially

in light of the fact that patent cases—unlike trademark cases—are subject to the exclusive jurisdiction of the federal courts under § 1338(a). *Id.*

We are now squarely faced with the question of whether this state-law tort claim presenting questions of patent law involves a sufficiently substantial federal interest to permit federal jurisdiction over a state-law tort. We hold that it does.

Our decision is guided by both (1) the strong federal interest in the “removal [of] non-uniformity in the patent law” that *Immunocept* explains exclusive federal jurisdiction was intended to ensure, 504 F.3d at 1285, and (2) our holding in *Scherbatskoy* [*v. Halliburton Co.*, 125 F.3d 288, 291 (5<sup>th</sup> Cir. 1997)]. In *Scherbatskoy*, we ordered a breach of contract case transferred to the Federal Circuit after determining that “resolution of the [plaintiffs’] substantive claim implicates the federal patent laws” because “determining whether [the defendant] infringed the [plaintiffs’] patents is a necessary element to recovery.” *Id.* The opinion offers no further analysis of the federalism question, but it is nevertheless binding on us. We see no basis for finding any less of a federal interest in patent law in the present case than in *Scherbatskoy*. In so holding, we conform both to *Singh*’s requirement of balancing the federal and state interests involved and *Scherbatskoy*’s implicit recognition of the special federal interest in patent law.

*Id.* at 281-282.

The Attorneys can cite to only one state supreme court which has found that applying federal exclusive jurisdiction to state legal malpractice claims would upset the balance of federalism concerns. *See, New Tek Manufacturing, Inc. v. Beehner*, 270 Neb. 264, 702 N.W.2d 336 (2005). That decision has since been criticized by other courts for finding the issue of patent law involved was not “substantial” and application of exclusive federal jurisdiction would upset the federalism balance. *See* p. 16, *supra*; *See also, Premier Networks, Inc., v. Stadheim and Grear, Ltd.*, 395 Ill. App. 3d 629, 636 (2009); *Landmark Screens, L.L.C. v. Morgan, Lewis & Bockius, L.L.P.*, 183 Cal.App.4th 238, 249-50, 107 Cal.Rptr.3d 373,381-82 (2010), reh'g denied (Apr. 28, 2010), review denied (July 14, 2010), cert. denied, 131 S. Ct. 1472, 179 L. Ed. 2d 300 (2011)(declining to follow *New Tek* and stating, “Merely because infringement may be a question of fact in a tort created under state law does not mean that it necessarily belongs in state court. We believe it was improper for the Nebraska court to intrude on federal jurisdiction by basing summary judgment on the conclusion that the evidence was insufficient to prove noninfringement.”).

Conversely, numerous courts have followed the holdings of *Air Measurement Tech.* and *Immunocept*; federal courts have denied motions to remand state legal malpractice claims stemming from underlying patent litigation and state courts have dismissed such actions, holding Section 1338 jurisdiction existed. *See, e.g., Tomar Elecs., Inc. v. Watkins*, No. 2:09-cv-00170-PHX-ROS, 2009 WL 2222707, at \*1-2 (D. Ariz. July 23, 2009) (order on motion to remand)(holding federal



courts possessed exclusive Section 1338 jurisdiction over state law legal malpractice stemming from patent infringement suit); *see also, e.g., LaBelle v. McGonagle*, No. 07-12097-GAO, 2008 WL 3842998, at \*2-4 (D. Mass. Aug. 15, 2008)(opinion and order, not reported) (same, stemming from negligent failure to file patent application); *Touchcom, Inc. v. Bereskin & Parr*, No. 1:07CV114 (JCC), 2008 U.S. Dist.LEXIS 112100 (E.D. Va., Feb. 4, 2008)(federal court jurisdiction arising from patent legal malpractice claim); *Byrne v. Wood, Herron & Evans, LLP*, No. 2: 08-102-DCR, 2008 WL 3833699, at \*4-5 (E.D. Ky. Aug. 13, 2008)(mem. op. and order, not reported)(holding federal courts possessed exclusive Section 1338 jurisdiction over state legal malpractice claim stemming from patent infringement suit); *Lockwood v. Sheppard, Mullin, Richter & Hampton*, 93 Cal. Rptr. 3d 220, 228-29 (Cal. Ct. App. 2009)(holding federal courts possessed exclusive Section 1338 jurisdiction over state law claims stemming from opposing attorney's alleged action in obtaining patent reexamination); *TattleTale Portable Alarm Sys. v. Calfee, Halter & Griswold, L.L.P.*, No. 08AP-693, 2009 WL 790314, at \*4-5 (Ohio Ct. App. Mar. 26, 2009) (holding federal courts possessed exclusive Section 1338 jurisdiction over state law legal malpractice claim stemming from failure to pay patent maintenance fees or to seek revival of patent); *Premier Networks, Inc. v. Stadheim and Grear, Ltd.*, 395 Ill. App. 3d 629, 918 N.E.2d 1117 (Ill. App. Ct. 2009), appeal denied, 236 Ill. 2d 545, 930 N.E.2d 416 (2010) (holding as a matter of first impression in Illinois that because the issues of legal malpractice were necessarily "inextricably bound to determinations of substantive issues of patent law," exclusive federal jurisdiction was proper.); *Rockwood Retaining Walls, Inc. v. Patterson, Thuente, Skaar & Christensen, P.A.*, 2009 WL 5185770 (D. Minn. Dec. 22,



2009)(order on motion to remand finding removal of the action proper because plaintiffs' legal malpractice action would require the resolution of substantial questions of federal patent law).

State and Federal courts have also differentiated non-patent law cases in denying motions for removal or granting motions for remand in state legal malpractice claims on the basis that there is a stronger public policy interest in uniformity of federal patent law than in other areas. *See, e.g., Singh*, 538 F.3d at 338; *Walker v. Dwoskin*, CIV. 3:09CV00004, 2009 WL 366387 (W.D. Va. Feb. 12, 2009)(reversing removal of state legal malpractice claim involving an underlying federal employment discrimination case and differentiating the case from *Immunocept*, stating "Because of the strong policy considerations weighing in favor of uniform interpretation of the federal patent laws, courts are more willing to hold that state law claims necessarily involving the resolution of federal patent law issues give rise to federal question jurisdiction."); *Caldera Pharmaceuticals, Inc. v. Regents of Univ. of Cal.*, 205 Cal. App. 4th 338, 368, 140 Cal. Rptr. 3d 543, 567 (Cal. Ct. App. 2012)(Reversing the state court's finding of lack of jurisdiction in breach of contract claims over patent licensing agreement and stating: "Nor is it an instance where proving malpractice requires proving infringement, the first categorical of federal exclusivity. (citing, *Warrior Sports, Inc. v. Dickinson Wright, P.L.L.C.*, 631 F.3d 1367 (Fed.Cir.2011); and *Air Measurement Tech. v. Akin Gump Strauss Hauer*, 504 F.3d 1262 (Fed.Cir.2007)).

The only other support the Attorneys argue for their "sky is falling" argument that the *Air Measurement Tech.* and *Immunocept* decisions have

wreaked havoc on the federal question doctrine are a single federal district court case, *Roof Technical Services v. Hill*, 679 F.Supp.2d 749 (N.D.Texas 2010), and a dissent by two justices in the Federal Circuit case of *Byrne v. Wood, Herron & Evans, L.L.P.*, No. 2011-1012 (Fed. Cir. Mar. 22, 2012).

*Roof Technical Services* is easily distinguished from the case at hand. The federal concern of patent infringement, which involves the application of significant subjective patent law, such as the experimental use doctrine, was not present in the *Roof Technical Services* case. In fact, in that case, the allegations were that the attorney had not followed applicable regulations in submitting a patent application, did not timely correct those deficiencies, thereby abandoning it, did not revive the application after abandoning it, did not inform the plaintiffs that the application had been abandoned, ignored the plaintiffs' requests for information about the status of the application, gave the plaintiffs incorrect and incomplete information when he did update them, and did not cooperate with the plaintiffs in explaining to the Patent and Trademark Office (PTO) that the delay was unintentional. 679 F.Supp.2d at 750-751. These are issues relating to the attorney's behavior in failing to meet deadlines and to inform clients. These are not issues of substantive patent law, which is the only issue here.

As for the dissent in *Byrne v. Wood, Herron & Evans, L.L.P.*, No. 2011-1012 (Fed. Cir. Mar. 22, 2012), that is a dissent by only two of the sixteen justices sitting on the Federal Circuit Court of Appeals. The petition for rehearing *en banc* was considered by twelve of the sixteen justices on the court, and a *per curiam*

order denying the petition was issued. Only two of those twelve who directly considered the petition for rehearing *en banc* dissented. Three justices concurred in the decision to deny the petition for rehearing *en banc* and pointed out that the dissenting opinion minimized the substantial federal interest in federal adjudication of the patent law issues in these cases. In their words:

State court decisions imposing attorney discipline for conduct before the PTO and in federal patent litigation based on an incorrect interpretation of patent law are almost certain to result in differing standards for attorney conduct and to impair the patent bar's ability to properly represent clients in proceedings before the PTO and in the federal courts. Denying federal jurisdiction over these cases would allow different states to reach different conclusions as to the requirements for federal patent law in the context of state malpractice. There is a substantial federal interest in preventing state courts from imposing incorrect patent law standards for proceedings that will exclusively occur before the PTO and the federal courts.

*Byrne*, 2011-1012. (Dyk, J. concurring).



## CONCLUSION

This Court should deny the Petition for Writ of Certiorari because this case meets the standard for federal exclusive jurisdiction set forth by *Grable* and *Christianson*. The only disputed issue in this case is the application of the experimental use exception to the on-sale bar doctrine. This issue is substantial as it is a necessary element of Minton's claim of legal malpractice. Application of exclusive federal jurisdiction does not disturb the careful balance of federal and state concerns but instead respects the federal interest of maintaining a uniform body of patent law without disturbing Texas legal malpractice law.

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# **REPLY BRIEF**

**In The  
Supreme Court of the United States**

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JERRY W. GUNN, INDIVIDUALLY, WILLIAMS SQUIRE  
& WREN, L.L.P., JAMES E. WREN, INDIVIDUALLY,  
SLUSSER & FROST, L.L.P., WILLIAM C. SLUSSER,  
INDIVIDUALLY, SLUSSER WILSON & PARTRIDGE,  
L.L.P., AND MICHAEL E. WILSON, INDIVIDUALLY,

*Petitioners,*

v.

VERNON F. MINTON,

*Respondent.*

---

**On Petition For A Writ Of Certiorari  
To The Supreme Court Of Texas**

---

**REPLY BRIEF IN SUPPORT OF  
PETITION FOR A WRIT OF CERTIORARI**

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## ARGUMENT

- A. The steady stream of state law cases decided by the Federal Circuit demonstrates that the jurisdiction issue raises significant federalism concerns.**

Minton accuses Petitioners of a “sky is falling” approach and argues that Petitioners have no “empirical data” to support a contention that the Federal Circuit’s jurisdictional standard has “opened the floodgates to allow all sorts of embedded federal question cases into federal court.” Brief at 22. In fact, the Federal Circuit’s recent docket readily illustrates the substantial number of state law cases being swept into federal court because of its jurisdictional error.

In just the short time since the petition for a writ of certiorari was filed in this case, the Federal Circuit has decided the following cases involving state law claims – not just legal malpractice claims – that arise out of underlying patent matters: *Byrne v. Wood, Herron & Evans, L.L.P.*, 676 F.3d 1024 (Fed. Cir. 2012) (en banc); *USPPS, Ltd. v. Avery Dennison Corp.*, 676 F.3d 1341 (Fed. Cir. 2012); *Landmark Screens, L.L.C. v. Morgan, Lewis & Bockius, L.L.P.*, 676 F.3d 1354 (Fed. Cir. 2012); *Minkin v. Gibbons, P.C.*, No. 2011-1178, \_\_\_ F.3d \_\_\_, 2012 WL 1560406 (Fed. Cir. May 4, 2012); *Memorylink Corp. v. Motorola, Inc.*, 676 F.3d 1051 (Fed. Cir. 2012) (en banc).

This Court has cautioned that federal courts exercising “arising under” jurisdiction should tread lightly and emphasized that the federalism aspect of

the “arising under” standard is meaningful; ideally the effect on the federal-state balance would be “microscopic.” *Grable & Sons Metal Products, Inc. v. Darue Eng’g & Mfg.*, 545 U.S. 308, 315 (2005); see also *Empire Healthchoice Assurance, Inc. v. McVeigh*, 547 U.S. 677, 699 (2006) (explaining that state law claims that come within “arising under” jurisdiction are the “small and special category” of cases). The sheer number of state law cases on the Federal Circuit’s current docket illustrates that “these are not the ‘rare’ or ‘special and small category’ of cases.” *Byrne*, 676 F.3d at 1037 (O’Malley, J., dissenting). The dissenting judge in *Byrne* also noted that “[t]here are also more patent-related malpractice cases that do not reach this court either because a state court has disagreed with our analysis, thus preventing the matter from entering the federal court system, or because district courts – somewhat brazenly perhaps – have chosen not to follow our analysis in a removed action, resulting in remand orders that we lack jurisdiction to review.” 676 F.3d at 1038 n.7. Significant numbers of state law cases really are being swept into federal court as a direct consequence of the Federal Circuit’s mistaken jurisdictional standard.

Moreover, this “trend will only increase, as the number of patent-related malpractice cases is on the rise. Accordingly, far from having a ‘microscopic effect’ on the federal-state division of judicial labor, we have appropriated authority over an entire . . . class of state law claims that traditionally belong in state court.” *Id.* at 1038 (citing Christopher G. Wilson, *Embedded*

*Federal Questions, Exclusive Jurisdiction, and Patent-Based Malpractice Claims*, 51 Wm. & Mary L. Rev. 1237, 1240 (2009) (“[A]ggrieved clients are bringing more claims against patent attorneys”); Am. Bar Ass’n Standing Comm. on Lawyers’ Prof’l Liab., *Profile of Legal Malpractice Claims 2004-2007*, at 4 tbl. 1 (2008)).

**B. The strong policy in favor of uniformity in patent law is not the end of the federalism inquiry.**

Minton’s analysis of the federalism component of “arising under” jurisdiction misses the mark. It gives no regard to the state interests, which are substantial; Minton cites the federal policy in favor of uniformity in patent law, and that is the end of his inquiry.

As a starting point, Minton’s premise is flawed; allowing malpractice cases like this to be litigated in state court will not threaten uniformity of patent law. Only hypothetical patent issues, not actual ones, are decided in legal malpractice cases, so no actual patent rights are adjudicated in such cases. The dissent in the Supreme Court of Texas explained that the federal issue “is collateral, not basic. This is a legal malpractice case, litigated after final judgment in the original, federal case. Resolution of the malpractice claim in question does not impact any live patent law claims. Moreover, it is unlikely that the legal malpractice opinions of Texas courts will in any way

disrupt the uniformity of patent law that Congress sought by enacting section 1338; on the merits of actual patent lawsuits, federal courts will no doubt look first to federal patent precedents, not Texas legal malpractice cases." App. 38 (citations omitted).<sup>1</sup>

Moreover, the statutory basis for "arising under" jurisdiction – 28 U.S.C. § 1338(a) – is not limited to patent matters. The "arising under" provision for patent law (and plant variety protection, copyrights and trademarks) in section 1338 follows the same interpretation as the identical "arising under" language in the general federal question provision of 28 U.S.C. § 1331. *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 808 (1988). Those words mean the same thing in all contexts and are not somehow magical vis-à-vis patents.

The America Invents Act did not expand that basic scope of "arising under" jurisdiction for claims "relating to patents." The Act leaves intact the basis for federal jurisdiction under section 1338(a) that Minton urges here: "The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks." 28 U.S.C. § 1338(a).

Prior to the Act, "arising under" jurisdiction for the federal courts and the Federal Circuit was governed by the well-pleaded complaint rule. See *Holmes*

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<sup>1</sup> Citations to App. in this Reply will be to the Appendix to the Petition for a Writ of Certiorari.



*Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 535 U.S. 826, 830 (2002). *Holmes* held the Federal Circuit did not have appellate jurisdiction over a federal patent law claim raised not in a complaint but in a counterclaim. *Id.* This Court rejected the argument that “arising under” jurisdiction should be interpreted differently regarding the Federal Circuit because of Congress’s goal of promoting the uniformity of patent law:

We do not think this option is available. Our task here is not to determine what would further Congress’s goal of ensuring patent-law uniformity, but to determine what the words of the statute must fairly be understood to mean.

*Holmes*, 535 U.S. at 832-33.

Congress responded to *Holmes* by amending section 1295(a)(1), section 1338(a), and section 1454(a) through the Act to include patent issues pleaded in a compulsory counterclaim. Without that change to the statute, this Court refused to expand its interpretation of “arising under” jurisdiction. Congress did not, however, change the scope of “arising under” jurisdiction, nor did it reach the *Grable* standard for determining when a state law claim comes within the federal court’s exclusive jurisdiction. Indeed, Congress expressly declined to amend the first sentence of section 1338 when it passed the Act precisely to avoid “unsettling the law in ways that no one can fully anticipate.” H.R. Rep. No. 109-407, at 6 (2006) (quoting the testimony of Professor Arthur Hellman).

Even in light of Congress' desire to maintain a uniform body of patent law, this Court has confirmed that "[n]ot all cases involving a patent-law claim fall within the Federal Circuit's jurisdiction." *Holmes*, 535 U.S. at 834.

**C. The recent opinions from the Federal Circuit demonstrate the lack of clarity regarding "arising under" jurisdiction in the patent context.**

"Jurisdictional rules should be clear." *Grable*, 545 U.S. at 321 (Thomas, J., concurring). While the *Grable* standard may present some challenges to apply, the Federal Circuit's overly broad standard has caused substantial uncertainty regarding "arising under" jurisdiction. The tortured procedural history of some of the recent cases decided by the Federal Circuit illustrates the confusion among litigants and the courts regarding the proper forum for state law claims arising out of patent matters.

For example, *Landmark Screens* involved state law claims of breach of contract, actual fraud, breach of fiduciary duty, legal malpractice, and negligence arising out of an underlying patent matter. *Landmark Screens, L.L.C. v. Morgan, Lewis, Bockius, LLP*, 107 Cal. Rptr.3d 373, 183 Cal. App.4th 238 (Cal. Ct. App. 2010), *cert. denied*, 131 S.Ct. 1472 (2011). Suit was originally filed in state court, for good reason: "At that point, it was commonly understood that state law malpractice claims arising out of legal representation involving federal matters – including patent

matters – were properly lodged in state courts and, absent diversity among the parties, only state courts. Not one of the three defendants – all sophisticated lawyers with sophisticated counsel – challenged the state court’s jurisdiction over this action at the time it was filed, or for years thereafter.” *Landmark Screens*, 676 F.3d at 1367 (O’Malley, J., dissenting) (citations omitted).

In 2007, two years after the action was filed in state court, this court affected a sea change by announcing its assertion of jurisdiction over these types of state law claims. See *Air Measurement Techs., Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 504 F.3d 1262 (Fed. Cir. 2007); *Immunocept, L.L.C. v. Fulbright & Jaworski, L.L.P.*, 504 F.3d 1281 (Fed. Cir. 2007). By then, the statute of limitations governing Landmark’s malpractice claim had expired. A year after our decision in *Air Measurement*, appellees filed a motion to dismiss in state court, which was granted based on our case law.

California has no savings statute, however, and, by statute, prohibits application of equitable tolling principles to malpractice claims, causing Landmark’s malpractice claim to be lost forever.

*Landmark Screens*, 676 F.3d at 1367. None of the sophisticated parties or counsel in that case identified that the claims came within “arising under” jurisdiction, and the result was a total loss of claims due to

limitations. The “mischief our case law in this area has caused is apparent.” *Id.*

Another example of uncertainty is *USPPS*, which involved claims of fraud and breach of fiduciary duty arising out of a patent matter. It was filed in federal court on the basis of diversity, and all “parties to the case proceeded under the assumption that diversity jurisdiction provided the only basis for federal jurisdiction.” *USPPS*, 676 F.3d at 1351 (O’Malley, J., concurring). The district court initially granted defendants’ motion to dismiss, and *USPPS* appealed to the Fifth Circuit. No one challenged the correctness of that appellate route, and the Fifth Circuit did not consider whether it had jurisdiction over the appeal. Instead, the Fifth Circuit reversed and remanded the action back to the district court. See *USPPS, Ltd. v. Avery Dennison Corp.*, 326 Fed.Appx. 842, 851 (5th Cir. 2009). It was not until the second appeal after remand that the Fifth Circuit *sua sponte* determined that appellate jurisdiction is proper in the Federal Circuit and transferred the appeal. See *USPPS, Ltd. v. Avery Dennison Corp.*, 647 F.3d 274, 275-76 (5th Cir. 2011). No one, not even the Fifth Circuit in the first appeal, identified that the claims came within “arising under” jurisdiction. Writing in the Federal Circuit after the transfer, Judge O’Malley lamented: “This case exemplifies the mischief our jurisdictional over-reaching has caused in situations where a state law claim involves an underlying patent issue.” 676 F.3d at 1350.

In this case, as well, Minton filed his claims in state court, and the parties litigated for several years through final judgment. Minton raised the issue of “arising under” jurisdiction for the first time while appeal was pending in the state court of appeals *Minton v. Gunn*, 301 S.W.3d 702 (Tex. App. – Fort Worth 2009), *reversed*, 355 S.W.3d 634 (Tex. 2011). The court of appeals determined that the case did not come within exclusive federal jurisdiction, but one justice dissented from that conclusion. See App. 94 (Walker, J., dissenting). A five-justice majority of the Supreme Court of Texas reached the opposite conclusion, finding that Minton’s claims belong in federal court. App. 26. Three justices, however, dissented and would have reached the opposite result. App. 45. Minton’s claims, which had been fully litigated on the merits in state court, have since been refiled from scratch in federal court.

These opinions illustrate two things: first, just as a matter of common sense, the fact that so many parties, counsel, and judges in state and federal courts have such differing views of “arising under” jurisdiction is a fair indication that the jurisdictional rules are not clear. Second, the fact that all of the confusion and differences of opinion have arisen after the Federal Circuit decided *Air Measurement* and *Immunocept* confirms that those cases departed from this Court’s *Grable* standard and changed the law. The net result is a developing body of case law that has “the consequence of confusing what would otherwise be a fairly uniform approach among the state



and federal courts.” *Byrne*, 676 F.3d at 1040 (O’Malley, dissenting).

Indeed, Minton’s attempts to distinguish cases that depart from the Federal Circuit standard illustrate both the confusion regarding “arising under” jurisdiction in the patent context and also the random quality of the Federal Circuit construct. For example, Minton argues that “courts have declined to find the [federal] issue substantial where the malpractice allegation was based on a missed deadline.” Brief at 24 (citing *Genelink Biosciences, Inc. v. Colby*, 2010 WL 2681915, \*5 (D. N.J., July 1, 2010) (“Unlike in the Federal Circuit cases, the resolution of plaintiff’s claim does not seek determination of infringement or claim construction . . . the standard of care an attorney must provide his client by not missing important deadlines is the same regardless of the subject matter, and not special to the patent law field.”)). Yet that is exactly what the Federal Circuit has done: found “arising under” jurisdiction where the malpractice allegation was based on a missed deadline. *See Davis v. Brouse McDowell, L.P.A.*, 596 F.3d 1355, 1359 (Fed. Cir. 2010), *cert. denied*, 131 S.Ct. 118 (2010).

A malpractice claim based on a missed deadline, moreover, presents exactly the same causation element – the case within a case aspect of malpractice claims – as Minton’s claim that Petitioners failed to plead the on-sale bar. In both instances the plaintiff must prove that he would have prevailed in the underlying patent matter but for the attorneys’ negligence. That causation inquiry, which is the sole

basis for “arising under” jurisdiction, is the same whether the attorney’s negligence was missing a deadline, or failing to raise a particular defense, or any other breach of the attorney’s standard of care. For example, in a recent opinion the Federal Circuit found “arising under” jurisdiction over claims of an attorney’s conflicts of interest and “mismanagement” of an underlying patent matter; the causation element, not the particular alleged breach, controlled the jurisdictional inquiry. *USPPS*, 676 F.3d at 1344-45. The fact that one sort of malpractice case comes within the federal courts’ exclusive jurisdiction while another does not – even though the patent inquiry regarding causation is the same in all – makes jurisdiction a fairly random matter under the Federal Circuit construct.

The need for clarity in jurisdictional rules is so significant that Justice Thomas, concurring in *Grable*, suggested that he would consider, in an appropriate case, whether to abandon the modern construct of “arising under” jurisdiction and return to Justice Holmes’ earlier rule limiting such jurisdiction to “cases in which federal law creates the cause of action pleaded on the face of the plaintiff’s complaint.” *Grable*, 545 U.S. at 320 (Thomas, J., concurring) (citing *Am. Well Works Co. v. Layne & Bowler Co.*, 241 U.S. 257 (1916)). “Whatever the vices” of that rule, “it is clear.” *Id.* at 321. There is no need to go so far as to abandon embedded federal question jurisdiction wholesale, but this case presents the Court with an opportunity to correct the confusion wrought by the

Federal Circuit and restore clarity to the jurisdictional rules.

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**CONCLUSION**

Petitioners therefore respectfully pray that this Court grant their petition for a writ of certiorari.

Respectfully submitted,

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# **JOINT APPENDIX**

**In The  
Supreme Court of the United States**

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& WREN, L.L.P., JAMES E. WREN, INDIVIDUALLY,  
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*Petitioners,*

v.

VERNON F. MINTON,

*Respondent.*

---

**On Writ Of Certiorari To The  
Supreme Court Of Texas**

---

**JOINT APPENDIX**

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**Petition For Writ Of Certiorari Filed March 9, 2012  
Certiorari Granted October 5, 2012**

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TARRANT COUNTY DISTRICT CLERK'S OFFICE  
ALL TRANSACTIONS FOR A CASE

Cause Number: 048-207288-04      Date Filed: 08/25/2004

VERNON F. MINTON      | v | JERRY W. GUNN, ET AL  
                                 | s |

\_\_\_\_ Cause of Action: INJURY OR DAMAGE, OTHER  
INJURY OR DAMAGE

\_\_\_\_ Case Status.....: FINAL JUDGMENT AFTER  
NON-JURY TRIAL

| Filemark   | Description                                           |
|------------|-------------------------------------------------------|
|            | * * *                                                 |
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|            | * * *                                                 |
| 06/30/2005 | ***FILE #2*** DEFNS JOINT MOT<br>FOR S/JDG (W/FIAT)   |
|            | * * *                                                 |
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11/27/2006 \*\*\*FINAL JUDGMENT \*\*\* (COST  
INCURRED)

\* \* \*

12/01/2006 \*NOT OF APPEAL

\* \* \*

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## Texas Second of Court Appeals

**Case Information:**

**Case Number:** 02-06-00443-CV  
**Date Filed:** 12/1/2006  
**Case Type:** Summary Judgment  
**Style:** Vernon F. Minton  
**v.:** Jerry W. Gunn, Individually;  
 Williams Squire & Wren,  
 LLP; James E. Wren, Indi-  
 vidually; Slusser & Frost,  
 L.L.P.; William C. Slusser,  
 Individually; Slusser Wilson  
 & Partridge LLP; and Michael  
 E. Wilson, Individually

**Original Proceeding:** No

**Trial Court Information:**

**Trial Court:** 48th District Court  
**Trial Court Judge:** Hon. David L. Evans  
**Trial Court Case #:** 48-207288-04

\* \* \*

**Case Events:**

| Date | Event Type | Description |
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|------|------------|-------------|

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|-----------|------------------------------------------|-----------|
| 1/15/2010 | Motion for rehearing en banc<br>disposed | Appellant |
|-----------|------------------------------------------|-----------|

\* \* \*

11/9/2009 Motion for rehearing en banc Appellant  
filed

\* \* \*

10/8/2009 Opinion issued

\* \* \*

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## Texas Supreme Court

**Case #10-0141****Case Information:****Case Number:** 10-0141**Date Filed:** 03/01/2010**Case Type:** Petition for Review/Cause under Rule 53.1**Style:** VERNON F. MINTON

**v.:** JERRY W. GUNN, INDIVIDUALLY,  
 WILLIAMS SQUIRE & WREN, L.L.P.,  
 JAMES E. WREN, INDIVIDUALLY,  
 SLUSSER & FROST, L.L.P., WILLIAM  
 C. SLUSSER, INDIVIDUALLY,  
 SLUSSER WILSON & PARTRIDGE,  
 L.L.P., AND MICHAEL E. WILSON,  
 INDIVIDUALLY

**Appellate Briefs:**

| Date | Event Type | Description |
|------|------------|-------------|
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|------------|---------------------------|------------|
| 04/02/2010 | Petition for Review filed | Petitioner |
|------------|---------------------------|------------|

| Remarks | Document |
|---------|----------|
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|                                                                            |  |
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| Petition appendix<br>attached (12) filed<br>on behalf of<br>Vernon Minton. |  |
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|  | [PDF/123 KB] |
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**Case Events:**

| Date       | Event Type        | Description | Disposition                                                  |
|------------|-------------------|-------------|--------------------------------------------------------------|
|            | *                 | *           | *                                                            |
| 12/16/2011 | Opinion<br>issued | Cause       | Court of Ap-<br>peals' judgment<br>reversed and<br>dismissed |
|            |                   | Remarks     | Document                                                     |
|            |                   |             | [DOC/97 KB]                                                  |
|            | *                 | *           | *                                                            |

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NO. 048 207288 04

|                              |   |                 |
|------------------------------|---|-----------------|
| VERNON F. MINTON,            | § | IN THE DISTRICT |
| Plaintiff                    | § | COURT OF        |
|                              | § |                 |
| v.                           | § |                 |
| JERRY W. GUNN, Individually, | § |                 |
| THE REAUD LAW FIRM, a        | § |                 |
| Professional Corporation,    | § |                 |
| GEORGE MICHAEL JAMAIL,       | § |                 |
| Individually. WILLIAMS       | § |                 |
| SQUIRE & WREN, LLP,          | § | TARRANT COUNTY, |
| JAMES E. WREN, Individually, | § | TEXAS           |
| SLUSSER & FROST, L.L.P.,     | § |                 |
| WILLIAM C. SLUSSER,          | § |                 |
| Individually, SLUSSER        | § |                 |
| WILSON & PARTRIDGE LLP,      | § |                 |
| MICHAEL E. WILSON, In-       | § |                 |
| dividually and LAW OFFICES   | § |                 |
| OF KEITH KEBODEAUX           | § |                 |
| Defendants                   | § | _____ JUDICIAL  |
|                              | § | DISTRICT        |

**PLAINTIFF'S ORIGINAL PETITION**

(Filed Aug. 25, 2004)

**TO THE HONORABLE JUDGE OF SAID COURT:**

**NOW COMES** Plaintiff, Vernon F. Minton, who files this Original Petition against Defendants, Jerry W. Gunn, Individually ("Gunn"), the Reaud Law Firm, a Professional Corporation (the "Reaud Law Firm"), George Michael Jamail ("Jamail"), Williams Squire & Wren, LLP ("WSW"), James E. Wren, Individually



("Wren"), Slusser & Frost, L.L.P. ("Slusser & Frost"), William C. Slusser, Individually ("Slusser"), Slusser Wilson & Partridge LLP ("SWP"), Michael E. Wilson, Individually ("Wilson") and Law Offices of Keith Kebodeaux ("Kebodeaux") Defendants, and for same would show the Court as follows:

### **I.**

#### **DISCOVERY PLAN, PARTIES AND VENUE**

1. Plaintiff desires to conduct discovery under Level 2 of Rule 190 of the Texas Rules of Civil Procedure.

2. Plaintiff is an individual who resides in Tarrant County, Texas.

3. Gunn is an individual who may be served with process at [Address Omitted In Printing].

4. The Reaud Law Firm is a Texas Professional Corporation which may be served with process through its Registered Agent, C. T. Corporation Systems, [Address Omitted In Printing].

5. Jamail is an individual who may be served with process at his place of business, the Reaud Law Firm, [Address Omitted In Printing].

6. WSW is a Texas Limited Liability Partnership which may be served with process through one of its partners, James E. Wren, at Bridgeview Center, [Address Omitted In Printing].

7. Wren is an individual who may be served with process at his place of business, Williams Squires & Wren, L.L.P., [Address Omitted In Printing].

8. Slusser & Frost is a Texas Limited Liability Partnership which may be served with process through one of its partners, William C. Slusser, [Address Omitted In Printing].

9. Slusser is an individual who may be served with process at his place of business, Slusser & Frost, L.L.P., [Address Omitted In Printing].

10. SWP is a Texas Limited Liability Partnership and may be served with process through one of its partners, William C. Slusser or Michael E. Wilson [Address Omitted In Printing].

11. Wilson is an individual who may be served with process at his place of business, Slusser Wilson & Partridge LLP, [Address Omitted In Printing].

12. Law Offices of Keith Kebodeaux is a sole proprietorship, which may be served with process through Keith Kebodeaux [Address Omitted In Printing].

13. Venue is proper in this Court in accordance with §15.002(a)(1) of the Texas Civil Practice and Remedies Code in that all or a substantial part of the events or omissions giving rise to the claim occurred in this County.

**I.**  
**FACTUAL BACKGROUND**

14. Plaintiff is an inventor. On January 11, 2000, U.S. Patent number 6,014,643 (the "643 Patent") was issued to Plaintiff. The 643 patent is generally directed to a computerized securities trading system.

15. On January 27, 2000, Plaintiff filed a complaint against the National Association of Securities Dealers, Inc. (the "NASD") as Civil Action No. 9:00-CV-0009 in the United States District Court for the Eastern District of Texas, Lufkin Division, styled "Vernon F. Minton, Plaintiff v. National Association of Securities Dealers, Inc., Defendant" (the "Underlying Lawsuit") asserting that the NASD had infringed and continued to infringe claims 1, 2, 3 and 4 of the 643 Patent. A copy of Plaintiff's First Amended Complaint in the Underlying Lawsuit (filed prior to the NASD's Answer Date) is attached hereto as Exhibit "A", and incorporated herein by reference for all purposes.

16. After the NASD answered, Plaintiff replaced his original counsel with Defendants (except Kebodeaux) to represent him in the Underlying Lawsuit. On August 2, 2000, Defendants filed Plaintiff's Second Amended Complaint, a copy of which is attached hereto as Exhibit "B" and incorporated herein by reference for all purposes. In the Second Amended Complaint, Defendants added the NASDAQ Stock Market, Inc. ("NASDAQ") as an additional defendant. The NASD and NASDAQ answered the Second

Amended Complaint by denying the claims made therein, and asserting several affirmative defenses, including that the 643 Patent was invalid for failure to comply with the operative requirements of Title 35 U.S.C., including but not limited to Sections 101, 102, 103 and/or 112.

17. On or about November 8, 2000, Kebodeaux entered his appearance as additional counsel to Plaintiff in the Underlying Lawsuit.

18. On July 18, 2001, the NASD and NASDAQ filed their Motion for Summary Judgment asserting invalidity of the 643 Patent. A copy of the Motion for Summary Judgment is attached hereto as Exhibit "C" and incorporated herein for reference for all purposes. A primary contention of the NASD and NASDAQ in their Motion was that the 643 Patent was invalid because of the "on-sale bar" contained in 35 U.S.C. §102(b) and/or 35 U.S.C. § 103(a) in view of a "TEXCEN" software program licensed by Plaintiff to a stock broker, R.M. Stark & Co., more than one year before the filing date of the application for the 643 patent.

19. 35 U.S.C. § 102(b) states that that [sic] an inventor is not entitled to a patent if "the invention was . . . on sale in this country, more than one year prior to the date of the application in the United States." In summary, in their Motion, the NASD and NASDAQ contended that the license of the TEXCEN system to R.M. Stark & Co. constituted placing TEXCEN "on sale" within the meaning of 35 U.S.C.

§ 102(b) more than a year prior to the filing date of the application and that the claims of the 643 patent were rendered invalid over TEXTCEN as prior art, either alone as anticipated under 35 U.S.C. §102(b) and/or as obvious over TEXTCEN under 35 U.S.C. §103(a) in combination with a prior art patent *Adams*.

20. A fundamental defense to the attempted use of an alleged sale or offer for sale as prior art under the on-sale bar is that the use or offer for sale at issue was primarily for experimental purposes rather than primarily for commercial purposes. If the sale or offer for sale at issue is determined to have been primarily for experimental purposes, the on sale bar will not apply. The fact that a use or offer for sale provides for the possibility of payment of money is not dispositive. Rather, a multiple factor analysis is used.

21. Under the appropriate multiple factor analysis, the facts show that the offer to license TEXTCEN was primarily for experimental purposes rather than primarily for commercial purposes. Despite this, Defendants never pled experimental use to negate the on-sale bar nor did they respond to the Motion for Summary Judgment with the experimental use argument.

22. On September 18, 2001, the Court entered an order requiring further briefing on several issues. A copy of the Order is attached hereto as Exhibit "D", and incorporated herein by reference for all purposes. One of the issues that the Court was clearly

concerned about was whether TEXTCEN was prior art to the 643 Patent and, if so, whether the 643 patent was invalid as obvious under 35 U.S.C. §103(a) over TEXTCEN. Once again, experimental use could have been relied upon to negate the use of TEXTCEN as prior art for purposes of defeating the obviousness issue raised by the Court in the Underlying Lawsuit. Defendants still failed to either plead it or brief it.

23. On February 1, 2002, the Court issued its Memorandum Opinion, a copy of which is attached hereto as Exhibit "E", and incorporated herein by reference for all purposes. In the Memorandum Opinion, all of Plaintiff's claims were dismissed with prejudice. The Court held that the on-sale bar applied to TEXTCEN, and that the claims of the 643 Patent were invalid as either anticipated over TEXTCEN alone, and/or as obvious by the combination of TEXTCEN and the prior art patent *Adams*.

24. On February 20, 2002, Defendants filed Plaintiff's Motion for Reconsideration asserting for the first time the fact that TEXTCEN as not prior art because the asserted offers for sale were, in fact, primarily for experimental purposes. However, this assertion was made too late and, on July 15, 2002, the Court denied Plaintiffs Motion for Reconsideration without addressing the merits of the experimental use argument.

25. Plaintiff thereafter took an appeal to the United States Court of Appeals for the Federal Circuit. The Federal Circuit affirmed the trial court's



judgment against Plaintiff and held that the claims were anticipated under 35 U.S.C. 102(b) over TEXCEN. On the experimental use issue, the Federal Circuit affirmed the trial court's refusal to consider the issue on the merits in the Motion for Reconsideration, on the basis that there was no justifiable basis for the tardiness in raising the experimental use issue. A copy of the Opinion of the United States Court of Appeals for the Federal Circuit is attached hereto as Exhibit "F", and incorporated herein by reference for all purposes.

### **COUNT I. - NEGLIGENCE**

26. Plaintiff incorporates herein by reference the factual allegations contained in paragraphs 1-25 above.

27. Defendants owed a duty to Plaintiff to represent him within the applicable standard of care in handling the Underlying Lawsuit. They breached their duty to Plaintiff in at least the following respects:

- a. Failing to timely plead and brief the experimental use defense in response to the claim of the on-sale bar by the NASD and NASDAQ;
- b. Failing to timely plead and brief the experimental use defense in response to the Court's Order for briefing on the obviousness issue.

Each of these acts of negligence was a proximate cause of damages to Plaintiff, which are within the jurisdictional limits of this Court.

#### **IV. CONCLUSION**

28. All conditions precedent to the granting of the relief herein have been satisfied. By the filing of this action, Plaintiff makes no election of remedies and no waiver of any rights, claims or defenses, but expressly reserves all such remedies, rights, claims and defenses, including but not limited to the right to amend and supplement this Petition as may be necessary and required by law.

29. Plaintiff demands trial by jury as to all issues.

**WHEREFORE, PREMISES CONSIDERED,**  
Plaintiff, Vernon F. Minton, prays:

1. That Defendants be cited to appear and answer herein;
2. For judgment against Defendants, jointly and severally, for Plaintiff's actual damages as may be proven at trial;
3. For pre- and post-judgment interest at the highest rates allowed by law;
4. For costs of court; and

5. For such other and further relief at law or in equity to which Plaintiff himself to be justly entitled.

Respectfully submitted,

**JOHNSTON ♦ TOBEY, P.C.**

By: /s/ Robert L Tobey

**Coyt Randal Johnston**

State Bar No. 10834400

**Robert L. Tobey**

State Bar No. 20082975

710 Founders Square

900 Jackson Street

Dallas, Texas 75202

(214) 741-6260 – Telephone

(214) 741-6248 – Telecopier

**CARR LLP**

Gregory W. Carr

State Bar No. 03855500

Theodore F. Shiells

State Bar No. 00796087

900 Jackson Street, Suite 670

Dallas, Texas 75202

(214) 760-3030

**ATTORNEYS FOR**

**VERNON F. MINTON**

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**EXHIBIT A**

**IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF TEXAS  
LUFKIN DIVISION**

**VERNON F. MINTON,** §  
**Plaintiff,** § **Civil Action No.:**  
 v. § **9:00-CV-00019**  
**NATIONAL ASSOCIATION OF** § **Judge:**  
**SECURITIES DEALERS, INC.,** § **Howell Cobb**  
**Defendant.** §

# FIRST AMENDED COMPLAINT

(Filed Feb. 10, 2000)

Vernon F. Minton (hereinafter "Minton") for his complaint against the National Association of Securities Dealers, Inc. ("NASD") alleges as follows:

## JURISDICTION

1. This cause of action arises under the patent laws of the United States, Title 35, United States Code, more particularly, 35 U.S.C. §§271 *et seq.* This Court has jurisdiction under the Judicial Code of the United States, 28 U.S.C. §1338(a) and 28 U.S.C. §1331.

### VENUE

2. Venue properly lies within the Eastern District of Texas pursuant to the provisions of 28 U.S.C. §1391 and 1400(b) in that a substantial part of the events giving rise to the claim occurred in this District, a substantial part of property that is the subject of the action is situated in this District, substantial acts constituting infringement of the patent-in-suit have occurred in this Judicial District and Division, the defendant NASD has systematic and continuous contacts to the forum subjecting it to personal jurisdiction in this District, and NASD is thus deemed to reside in this district. NASD has further availed itself of services in the State of Texas by participating in arbitrations and mediations under the auspices of the State Securities Board of the State of Texas. Additionally, any and all security broker/dealers that wish to do business with the public must become a member of the NASD and register all branch offices as well. Consequently, NASD has numerous members which participate in the infringements residing within this district.

### THE PARTIES

3. Minton, is an individual residing in Fort Worth, Texas. Minton is the inventor and owner of U.S. Patent No. 6,014,643, entitled "Interactive Securities Trading System," issued on January 11, 2000.

4. NASD is a Delaware corporation with a principal place of business [sic] 15201 Diamondback Dr., Rockville, Md. 20850. NASD is registered [sic] to do business in the State of Texas. NASD and/or its wholly owned subsidiaries have business addresses in at least Washington, DC, Rockville, Maryland, Gaithersburg, MD, New York, New York, Menlo Park, California, London, United Kingdom, and Trumbull, Connecticut [sic]. NASD can be served through its registered agent CT Corporation System, 350 N. St. Paul, Dallas, Tx 75201.

### **BACKGROUND**

7. On January 11, 2000, U.S. Patent No. 6,014,643 ("the '643 patent") was duly and legally issued to Minton. A copy of the '643 patent is attached hereto as **EXHIBIT A**.

8. Minton owns and, at all times material to this Complaint, has owned all right, title, and interest in the '643 patent and the invention claimed therein (hereinafter "the patented method").

9. The claims of the '643 patent relate to a method and network for trading securities. The method generally requires that orders to purchase securities and orders to sell securities are gathered and transmitted over a public communications network to a data processing network where the orders are ranked by price and quantity and displaying the orders on a graphical interface.



10. Upon information and belief, NASD, as hereinafter set out, has infringed and continues to infringe claims 1, 2, 3 and 4 of the '643 patent.

### **NASD'S INFRINGEMENT**

11. NASD is engaged in the business of facilitating the trades of securities by brokers, dealers, and other electronic communications networks ("ECN's"). NASD operates most or all of this portion of its business through its wholly owned subsidiary, Nasdaq/Amex Market Group. This group in turn operates through The American Stock Exchange, Inc., The Nasdaq Stock Market, Inc. and Nasdaq/Amex International. NASD advertises its products and services and otherwise has them featured in nationally published magazines and on the Internet and leases their products and services worldwide. The NASD products, including, but not limited to, those incorporating the NASDAQ Workstation II, when used in conjunction with NASD's services, literally infringe claims 1, 2, 3 and 4 of the '643 patent. In fact, following the introduction of the Limit Order Rule by the Securities and Exchange Commission in 1997, NASD has been compelled by law to practice the method claimed in the '643 patent and has in fact done so.

14. Upon learning these facts, Minton has made repeated requests to NASD to enter into negotiations for and to take a license under the '643 patent. Minton began these efforts before the '643 patent issued (including providing NASD with a photocopy of the

correspondence with the Patent and Trademark Office which led to the issuance of the '643 patent, with the specific serial number identification redacted) and has continued these efforts since the issuance of the '643 patent. NASD, while acknowledging receipt of such letters, has informally responded to the substantive issues of these inquiries, but NASD has continued its production and leases of the infringing products and services.

15. Unless enjoined NASD will continue to infringe claims 1, 2, 3 and 4 of the '643 patent as above described.

16. Minton would receive income in the form of royalties and/or license fees charged to NASD or other markets or to broker-dealers that use the NASD and/or similar systems for the trading of securities covered by the '643 patent. Therefore, Minton has suffered damage by reason of the unlicensed using, and leasing and offering for sale of the NASD workstations and NASD services covered by claims 1, 2, 3 and 4 of the '643 patent and will suffer additional damage, including the loss of royalties that Minton would have realized but for NASD's unlawful acts, unless NASD is enjoined by this Court from continuing its unlicensed [sic] use of the patented method.

17. NASD has had knowledge of the pendency and imminent issuance of the '643 patent since at least about May 13, 1999 and has had actual notice of the issuance of the '643 patent since at least January 24, 2000. The activities of NASD above described,

including the infringement of the '643 patent, are therefore willful and deliberate.

**WHEREFORE**, Minton prays:

- (a) for a judgment that NASD is infringing claims 1, 2, 3 and 4 of United States Letters Patent No. 6,014,643;
- (b) for a permanent injunction enjoining NASD and all in privity with them from further infringement of the claims of United States Letters Patent No. 6,014,643;
- (c) for an award of compensatory damages from NASD no less than the royalty Minton would have received for granting NASD a license;
- (d) for a threefold increase of the damages from NASD, or some lesser amount as the Court deems appropriate, based upon NASD's willful and deliberate infringement;
- (e) for an award of the costs of this action and reasonable attorney's fees herein incurred; and
- (f) for pre- and post-judgment interest and such other and further relief as this Court may deem appropriate.

Respectfully submitted,

Date: February 9, 2000

/s/ Kent A. Rowald

Kent A. Rowald

TBA No. 17329300

**FELSMAN, BRADLEY,  
VADEN, GUNTER &  
DILLON, L.L.P.**

One Riverway, Suite 1100

Houston, Texas 77056-1982  
(713) 961-3525 [telephone]  
(713) 961-3723 [facsimile]

Attorney-in-Charge for  
Plaintiff Vernon F. Minton

[Exhibit A is a patent document reproduced  
in a separate volume. Rule 33.1(c)]

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NO. 048 207288 04

|                          |   |                 |
|--------------------------|---|-----------------|
| VERNON F. MINTON         | § | IN THE DISTRICT |
| Plaintiff                | § | COURT OF        |
| V.                       | § | TARRANT COUNTY, |
|                          | § | TEXAS           |
| JERRY W. GUNN, Individ-  | § |                 |
| ually, WILLIAMS SQUIRE   | § | 48th JUDICIAL   |
| & WREN, LLP, JAMES E.    | § | DISTRICT        |
| WREN, Individually,      | § |                 |
| SLUSSER & FROST, L.L.P., | § |                 |
| WILLIAM C. SLUSSER,      | § |                 |
| Individually, SLUSSER    | § |                 |
| WILSON & PARTRIDGE       | § |                 |
| LLP, and MICHAEL E.      | § |                 |
| WILSON, Individually     | § |                 |

**DEFENDANTS' JOINT MOTION**  
**FOR SUMMARY JUDGMENT**

(Filed Jun. 30, 2005)

Defendants Jerry W. Gunn; William C. Slusser; Michael E. Wilson; Slusser & Frost, L.L.P.; Slusser Wilson & Partridge L.L.P.; James E. Wren and Williams Squire & Wren, LLP (collectively "Defendants") respectfully move for summary judgment pursuant to Texas Rules of Civil Procedure 166a(c) and 166a(i) because plaintiff's claims for legal malpractice fail as a matter of law.

[Table Of Contents And  
Table Of Authorities Omitted In Printing]

## I. GROUNDS FOR SUMMARY JUDGMENT

This is a legal malpractice suit. Plaintiff Vernon F. Minton ("Minton") alleges that Defendants negligently represented him in a patent infringement action that he filed against the National Association of Security Dealers, Inc. ("NASD") and the Nasdaq Stock Market, Inc. ("NASDAQ") in federal district court (the "Underlying Litigation"). Minton's claims were based on a patent referred to as the "'643 Patent."

In the Underlying Litigation, the district court (Judge Howell Cobb, Eastern District of Texas) granted NASD and NASDAQ's motion for summary judgment on Minton's patent infringement claims because, *inter alia*, Minton's '643 patent was invalid under the one year "on sale" bar under 35 U.S.C. § 102(b). The district court's order was issued with a long and thorough opinion. This opinion makes clear that the court based its ruling on the fact that Minton (through his company) had developed, and then leased, an essentially identical product (referred to as "TEXCEN") more than one year prior to applying for the '643 patent. Minton alleges only one complaint against his lawyers in this case – that they failed to timely plead and brief the "experimental use" doctrine to negate the on sale bar and, thus, defeat NASD and NASDAQ's motion for summary judgment.

As a matter of law, a patent is invalid if the inventor placed the invention "on sale" more than one year before applying for a patent. 35 U.S.C. §102(b).



Minton leased TEXTCEN on March 8, 1995. Minton did not apply for the '643 patent until June 26, 1996 – over a year after commercializing TEXTCEN. The timing of the TEXTCEN lease and the '643 application are fatal to Minton's '643 claims, since the Court found that the '643 patented invention was either (a) the same as TEXTCEN or (b) obvious from TEXTCEN. Either way, the patent was invalid under the on sale bar.

In this suit, Minton alleges that some of his lawyers, the Defendants in this case, failed to raise the experimental use doctrine as an exception to the on sale bar. Under this limited exception, prior commercialization of an invention does not invalidate a patent if the sale or lease was *primarily* for experimental rather than commercial purposes.

To prevail on his legal malpractice claim, Minton must prove that, but for Defendants' alleged negligence, he would have prevailed in the Underlying Litigation. Thus, the causation element requires Minton to prove that he would have avoided the on sale bar by establishing the limited experimental use exception, and then that he would have won the case on the merits of whether NASD and NASDAQ really infringed his '643 patent. Here, without even considering the merits of the infringement claims, Minton's malpractice claims fail. A lawyer cannot be held liable for malpractice in allegedly failing to plead or pursue a defense or claim that is not legally or factually viable.

Minton wrongly claims that if Defendants had timely pleaded and briefed the experimental use doctrine, he would have defeated NASD and NASDAQ's motion for summary judgment and prevailed at trial on his patent infringement claims. However, Minton's own sworn admissions as well as the only objective, contemporaneous, documentary evidence establish as a matter of law that Minton commercially leased his invention to a third party over a year before applying for the '643 patent. Accordingly, the patent is invalid, and Minton could not have defeated the one year on sale bar either at the summary judgment stage or at trial.

To decide this motion, this Court must revisit only the objective, contemporaneous evidence in the Underlying Litigation concerning experimental use, and determine, as a question of law, whether the TEXTCEN lease was primarily for commercial or experimental use. Patent law holds that an inventor must show experimental purpose with *objective and contemporaneous* evidence. An inventor cannot offer only evidence of subjective intent to prove experimental purpose. Here, the only contemporaneous documents affirmatively establish the purpose of the lease was commercial, not experimental. The lease plainly states that Minton's company "has developed" TEXTCEN to lease ***"for the purpose of opening brokerage accounts and executing trades for individuals using TEXTCEN."*** Exhibit G, p. 1 (emphasis added). The lease requires payment for the use of TEXTCEN for a term up to 13 years. *Id.* at ¶2, 3.

Minton even warrants in the lease that TEXCEN will perform in a workmanlike manner. *Id.* at ¶8. The lease never suggests an experimental purpose.

All other objective, contemporaneous evidence confirms the commercial purpose of the TEXCEN lease. When marketing TEXCEN, Minton represented that the program would be “online” around the time the lease was signed. Minton provided working demonstrations of TEXCEN before the lease. Minton admits that he never even told the lessee or the lawyer who drafted the lease anything about this purported experimental purpose. Minton testified in the Underlying Litigation that TEXCEN would be used “commercially” and that Minton “expected to benefit financially” from the lease.

In short, Minton has no evidence of experimental purpose other than his own litigation – inspired, subjective intent offered through an affidavit. This affidavit was not offered by Minton until after he had already lost on summary judgment. The affidavit cannot establish experimental use as a matter of law for two reasons. First, the affidavit does not reconcile Minton’s prior, contradictory deposition testimony that the lease was commercial and, therefore, could not be considered as evidence in the Underlying Litigation. Second, the Federal Circuit Court of Appeals, holding exclusive jurisdiction over appeals in patent cases, prohibits as a matter of law the use of post-hoc testimony of subjective intent to trump contemporaneous, objective evidence, stating:

Post-hoc affidavit testimony alone, years after the events described and purporting to show an inventor's subjective experimental intent, *will never satisfy the burden of establishing experimental use* in a case like this *where there is no contemporaneous evidence of experimental purpose and the objective evidence is to the contrary.*

*Sinskey v. Pharmacia Ophthalmics*, 982 F.2d 494, 498-99 (Fed. Cir. 1992) (emphasis added) (granting summary judgment against the experimental use defense) (copy attached as Exhibit 1). The only objective, contemporaneous evidence in this case conclusively establishes that the TEXCEN lease was commercial, not experimental.

Defendants therefore move for summary judgment pursuant to Texas Rules of Civil Procedure 166a(c) and 166a(i). Defendants are entitled to summary judgment under Rule 166a(c) because the record establishes as a matter of law that Defendants' conduct did not proximately cause Minton's alleged damages because Minton would not have been able to successfully defeat the on sale bar either at the summary judgment stage or at trial.

Defendants also are entitled to summary judgment under Rule 166a(i) because there is no evidence to support one or more elements of Minton's legal malpractice claim against Defendants. Specifically, for the reasons stated above, there is no evidence that

Defendants proximately caused Minton's alleged damages.<sup>1</sup>

## **II. OVERVIEW OF RELEVANT PATENT LAW PRINCIPLES**

### **A. General Principles of Patent Law**

A brief review of the patent law principles relevant to this case puts this motion in context. In the Underlying Litigation upon which Minton's legal malpractice claim is based, Minton alleged that NASD and NASDAQ infringed a patent owned by Minton. The patent in dispute was U.S. Patent No. 6,014,643 ("the '643 patent"). Patent (Exhibit A). The "claims" of a patent are the numbered sentences at the end of each patent. For example, the '643 patent has four claims, which can be found at Columns 15 and 16 of the patent. *Id.* at Columns 15-16. The claims define the invention made by the inventor, what the patent owner owns, and what the patent owner may prevent others from doing.

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<sup>1</sup> Given the narrow scope of Minton's claims in this case, Defendants respectfully submit that no further discovery is necessary to decide the specific issues in this motion. Minton's deposition has been taken, the defendants have provided Minton their case files from the Underlying Litigation, and Minton has provided the defendants his documents. Furthermore, the parties have agreed that if, after Minton has reviewed this motion, Minton determines that depositions of the defendants are necessary to respond to the motion, such depositions may be conducted prior to a hearing on the motion. This motion thus is timely under Rule 166a(i).

Claims generally are divided into parts called "limitations" or "elements." Any person or business entity that – without the patent owner's permission – makes, uses, offers for sale, sells, or imports within the United States any product or method that includes each and every element of least one claim of a patent (before the patent expires) infringes the patent.

**B. The One Year "On Sale Bar" Under 35 U.S.C. § 102(b)**

In the Underlying Litigation, NASD and NASDAQ successfully argued that the '643 patent is invalid and cannot support a claim of infringement. A federal court may deem a patent issued by the Patent and Trademark Office to be invalid under certain circumstances set forth in the federal Patent Act. NASD and NASDAQ argued that the '643 patent was invalid because the invention was on sale more than one year prior to the date Minton first applied for the patent on June 28, 1996. This defense is commonly referred to as the "on sale" bar and is statutorily-grounded in 35 U.S.C. § 102(b), which states:

A person shall be entitled to a patent unless –

\* \* \*

- (b) *the invention was . . . on sale in this country, more than one year prior to the date of the application for patent in the United States . . .*



35 U.S.C. § 102(b) (emphasis added). The date that is one year prior to the date that the patent application was filed is commonly referred to as the “critical date.” See, e.g., *Baker Oil Tools, Inc. v. Geo Vann, Inc.*, 828 F.2d 1558, 1563 (Fed. Cir. 1987). In the present action, there is no dispute that the critical date for Minton’s ‘643 patent was June 28, 1995, based on the filing of the provisional application for the ‘643 patent on June 28, 1996. Exhibit A, p. 1.

The one year on sale bar applies (and invalidates a patent claim) when two conditions are satisfied prior to the critical date: (1) the claimed invention is the subject of a commercial offer for sale; and (2) the claimed invention is ready for patenting. See, e.g., *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 67 (1998).<sup>2</sup> The on sale bar applies only if the product sold “fully anticipated the claimed invention or would have rendered the claimed invention obvious by its addition to the prior art.” *Allen Eng’g Corp. v. Bartell Indus.*, 299 F.3d 1336, 1352 (Fed. Cir. 2002). In other words, to invalidate a patent claim under the on sale bar, the product that is “on sale” must embody all of the elements of that claim or render that claim obvious. See, e.g., *id.*; *Netscape Commun. Corp. v. Konrad*, 295 F.3d 1315, 1323 (Fed. Cir. 2002).

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<sup>2</sup> Absent any relevant United States Supreme Court authority, the United States Court of Appeals for the Federal Circuit’s interpretation of federal patent law is controlling because the Federal Circuit has exclusive jurisdiction over appeals in patent cases. 28 U.S.C. 1295(a)(1).

With respect to the first condition of the on sale bar – that the claimed invention be the subject of a commercial offer for sale – the Federal Circuit has applied traditional contract law principles in determining whether an offer to sell the product embodying the claimed invention is a commercial offer for sale under Section 102(b). *See, e.g., Netscape Commun. Corp.*, 295 F.3d at 1323-24. The Federal Circuit requires that the offer be “one which the other party could make into a binding contract by simple acceptance (assuming consideration).” *Id.* at 1323. More specifically, a sale under Section 102(b) is “a contract between parties to give and to pass rights of property for consideration which the buyer pays or promises to pay the seller for the thing bought or sold.” *Zacharin v. United States*, 213 F.3d 1366, 1370 (Fed. Cir. 2000). A sale would include a contract that conveys rights “to possession and use” of the product in question (*e.g.*, a license or lease). *See Group One, Ltd. v. Hallmark Cards, Inc.*, 254 F.3d 1041, 1049 (Fed. Cir. 2001) (“Of course, a sale of an interest that entitles the purchaser to possession and use of the machine, unrelated to any patent present or future, could be couched as a ‘license’; such labeling would not prevent the transaction from triggering the on-sale bar, all other requirements being met”). Even the free distribution of a prototype may constitute a sale if it is done to solicit a sale. *See Intel Corp. v. U.S. Int’l Trade Comm’n*, 946 F.2d 821, 830 (Fed. Cir. 1991).

With respect to the second condition of the on sale bar – that the claimed invention be ready for patenting – said condition may be satisfied by proof that, prior to the critical date: (1) the claimed invention had been reduced to practice; or (2) the inventor had prepared drawings or other descriptions of the invention that were sufficiently specific to enable a person skilled in the art to practice the invention. *See, e.g., Pfaff*, 525 U.S. at 67-68. Because Minton’s legal malpractice claim focuses exclusively on Defendants’ alleged failure to timely plead and brief the experimental use doctrine in negation of the first condition of the on sale bar, further discussion of this second condition is unnecessary.<sup>3</sup>

### C. The Limited “Experimental Use” Exception to the On Sale Bar

The experimental use doctrine attacks the first prong of the on sale bar analysis – i.e., whether the claimed invention is the subject of a commercial offer for sale. *Pfaff*, 525 U.S. at 67 (holding first prong satisfied when “sale was commercial rather than experimental in character”). An offer for sale does not trigger the on sale bar if *the purpose of the sale is*

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<sup>3</sup> In his appeal of the adverse judgment in the patent infringement action, Minton did not appeal the district court’s conclusion that the second condition of the on sale bar – that *TEXCEN* was ready for patenting prior to the critical date – was satisfied. *See Minton v. National Ass’n of Sec. Dealers, Inc.*, 336 F.3d 1373, 1377 (Fed. Cir. 2003).

**primarily experimental** rather than commercial in character. See, e.g., *Pfaff*, 525 U.S. at 67; *Allen Eng'g Corp.*, 299 F.3d at 1352-53; *Monon Corp. v. Stoughton Trailers, Inc.*, 239 F.3d 1253, 1258 (Fed. Cir. 2001). The question of whether the experimental use doctrine applies to negate the on sale bar is a **question of law**. See, e.g., *Petrolite Corp. v. Baker Hughes*, 96 F.3d 1423, 1426 (Fed. Cir. 1996); *Baxter Int'l, Inc. v. Cobe Lab., Inc.*, 88 F.3d 1054, 1060 (Fed. Cir. 1996).

In determining whether the experimental use doctrine applies to negate the on sale bar, the critical inquiry is whether the primary purpose of the sale was to conduct experimentation, **not** whether the product being sold merely was in an experimental stage at the time of the sale:

[T]he question posed by the experimental use doctrine . . . is not whether the invention was under development, subject to testing, or otherwise still in its experimental stage at the time of the asserted sale. Instead, the question is whether the transaction constituting the sale was 'not incidental to the primary purpose of experimentation,' i.e., whether the primary purpose of the inventor at the time of the sale, as determined from an objective evaluation of the facts surrounding the transaction, was to conduct experimentation.

*Allen Eng'g Corp.*, 299 F.3d at 1354 (quoting *EZ Dock v Schafer Sys.*, 276 F.3d 1347 (Fed. Cir. 2002) (Linn, J., concurring)); *Scaltech Inc. v. Retec/Tetra*, 178 F.3d

1378, 1384 n.1 (Fed. Cir. 1999) (“Commercial exploitation, if not incidental to the primary purpose of experimentation, will result in an on sale bar, even if the invention was still in its experimental stage”).

Determining whether the primary purpose of an offer for sale was experimentation as a matter of law is an objective inquiry. Courts consider contemporaneous and objective factors, including: (1) the necessity for public testing; (2) the amount of control over the experiment retained by the inventor; (3) the nature of the invention; (4) the length of the test period; (5) whether payment was made; (6) whether there was a secrecy obligation; (7) whether records of the experiment were kept; (8) who conducted the experiment; (9) the degree of commercial exploitation during testing; (10) whether the invention reasonably requires evaluation under actual conditions of use; (11) whether testing was systematically performed; (12) whether the inventor continually monitored the invention during testing; and (13) the nature of contacts made with potential customers. *See, e.g., Allen Eng'g Corp.*, 299 F.3d at 1353; *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1380 (Fed. Cir. 1998) (Bryson, J., concurring and dissenting in part).

Consistent with the objective nature of the inquiry, the Federal Circuit has uniformly declined to accord probative value to a seller/inventor's subjective characterizations of the nature of the sale that are first expressed after a patent infringement claim is filed. Indeed, the Federal Circuit has repeatedly held



that **a seller's mere assertion that the primary purpose of the sale was experimental is not sufficient to establish experimental use.** See, e.g., *EZ Dock, Inc.*, 276 F.3d at 1355; *Paragon Podiatry Lab., Inc.*, 984 F.2d at 1186; *Sinskey*, 982 F.2d at 499; *Labounty Mfg., Inc. v. U.S. Int'l Trade Comm'n*, 958 F.2d 1066, 1071-72 (Fed. Cir. 1992). See also *D. L. Auld Co. v. Chroma Graphics Corp.*, 714 F.2d 1144, 1150 (Fed. Cir. 1983) ("if a mere allegation of experimental intent was sufficient, there would rarely, if ever, be room for summary judgment on a true 'on sale' defense under 35 U.S.C. 102(b)").

The Federal Circuit has imposed additional common-sense limits on the scope of the experimental use defense. For example, further testing of the claimed invention will not constitute experimental use for purposes of negating the on sale bar if such testing occurs **after** the invention has been reduced to practice. See, e.g., *SmithKline Beecham Corp. v. Apotex Corp.*, 365 F.3d 1306, 1318 (Fed. Cir. 2004); *Allen Eng'g Corp.*, 299 F.3d at 1354. Moreover, the experimental use defense does not apply to experiments performed with respect to nonclaimed features of an invention. See *In re Theis*, 610 F.2d 786, 793 (C.C.P.A. 1979).



### **III. FACTUAL BACKGROUND**

#### **A. Minton Develops the TEXTCEN Software Program in the Early 1990's**

In the early 1990's, Minton – a former securities broker<sup>4</sup> – formed a company called the Texas International Stock Exchange (“TISE”) and developed a telecommunications network and software program called the Texas Computer Exchange Network (“TEXTCEN”). Exhibit B, p. 5; 3/1/05 Depo. of Vernon Minton pp. 23, 295 (Exhibit D).<sup>5</sup> TEXTCEN allowed individuals to trade securities through a computer network. Exhibit B, pp. 7-8.

#### **B. Minton Leases TEXTCEN to R.M. Stark & Co. on March 8, 1995 – for Commercial, Not Experimental, Purposes**

In 1994, Minton approached two NASD brokerages/dealers about leasing TEXTCEN. Exhibit D, p. 89. One of the dealers whom Minton approached was R.M. Stark & Co. (“Stark”). *Id.* On January 25, 1995, Minton sent Stark a letter regarding the proposed lease of TEXTCEN to Stark. 1/25/95 Letter From

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<sup>4</sup> The SEC permanently revoked Minton's broker license and permanently barred Minton from associating with any brokers/dealers due to misconduct by Minton in unrelated securities transactions. 3/1/05 Depo. of Vernon Minton pp. 22-23, 48 (Exhibit D).

<sup>5</sup> TISE subsequently changed its name to Texas Computer Network. Depo. of Vernon Minton pp. 23, 294 (Exhibit D); 2/6/01 Depo. of Vernon Minton, p. 367 (Exhibit E).

Minton to Stark (Exhibit F). In that letter, Minton represented that “[a]fter five years of development, **TEXCEN** is scheduled to be on-line during March or April of this year.” *Id.* Minton further stated that “[a]s we discussed, the Texas International Stock Exchange, Inc. would appreciate your consideration in utilizing this program as an exclusive opportunity for enhanced order flow.” *Id.* Attached to the letter was a draft lease agreement, which expressly stated that “[Stark] . . . wishes to lease **TEXCEN** from TISE *for the purpose of opening brokerage accounts and executing trades for individuals using **TEXCEN***.” *Id.* at Attachment (Preamble). Significantly, the lease expressly warranted that “**TEXCEN WILL PERFORM IN A WORKMANLIKE MANNER.**” *Id.* at 118 (emphasis in original).

On March 8, 1995, Minton and Stark executed the **TEXCEN** lease. 3/8/95 Agreement of Lease (Exhibit G). As in the 1/25/95 draft, the lease specifically stated that Stark “wishes to lease **TEXCEN** from TISE *for the purpose of opening brokerage accounts and executing trades for individuals using **TEXCEN***.” *Id.* at Preamble. Minton represented in the lease that “TISE has developed . . . **TEXCEN.**” *Id.* The lease also again expressly warranted that “**TEXCEN WILL PERFORM IN A WORKMANLIKE MANNER.**” *Id.* at ¶ 8 (emphasis in original). The lease defined the initial term of the agreement as 3 years, but Stark had the option to extend the lease period up to a total of 13 years. *Id.* at ¶ 2. The lease further provided that Stark would pay

TISE for use of TEXTCEN in the amount of \$2,000.00 per month or 30% of the gross revenues Stark derived from TEXTCEN (whichever was less) and that Stark had the right to offer TEXTCEN to his prospective customers for “free, with only a low down loading or shipping and handling fee.” *Id.* at ¶ 3; Exhibit F.

In the period leading up to the execution of the lease on March 8, 1995, Minton never informed Stark that the purpose of the lease (primary or otherwise) was to conduct experimentation on TEXTCEN. Exhibit D, p. 99, ln. 17-19; p. 318, ln. 19-22.<sup>6</sup> In the Underlying Litigation, Minton repeatedly affirmed that the primary purpose of the TEXTCEN lease with Stark was commercial, not experimental. Exhibit E, pp. 75, 547; Exhibit D, pp. 81, 106-107 (affirming truthfulness of prior testimony).

### **C. Minton Applies for the ‘643 Patent on TEXTCEN on June 28, 1996**

As noted above, Minton is the owner and named inventor of the ‘643 patent, a patent for an interactive securities trading system based substantially on TEXTCEN. Exhibit A, pp. 1, 4 (illustrations and figures in ‘643 patent based on “screen shots” from TEXTCEN); Exhibit B, p. 14 (noting Minton’s deposition testimony that he provided copy of TEXTCEN and TEXTCEN Software Assistance Guide to his patent

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<sup>6</sup> As set forth below, *supra*, at 24-25, this fact alone is fatal to Minton’s experimental use argument.

attorney, who used those materials to prepare application for '643 patent); Exhibit D, p. 414 (same). Minton filed his provisional application for the '643 patent on June 28, 1996, a little more than a year after executing the TEXTCEN lease with Stark. Exhibits A, p. 1, Exhibit G, p. 1. The patent issued on January 11, 2000. Exhibit A, p.1.

#### **D. Minton Sues NASD and NASDAQ for Patent Infringement in the Underlying Litigation**

The same month his '643 patent issued, Minton sued NASD for patent infringement in the United States District Court for the Eastern District of Texas, and subsequently added NASDAQ as a defendant. *See* Opinion, pp. 1, 4 (Exhibit B). Minton alleged that NASD and NASDAQ infringed certain claims of the '643 patent. *Id.*

Minton's lawyers filed the Underlying Litigation without knowledge of the prior lease of TEXTCEN. Despite the critical importance of the lease, Minton acknowledges that he never told his litigation counsel about it until after NASD and NASDAQ first revealed its existence in discovery. Exhibit D-1, p. 126, ln. 13- p. 127, ln. 18; Exhibit D, p. 150, ln. 15- p. 151, ln. 11. Minton admits that he should have disclosed the lease to his lawyers from the beginning.<sup>7</sup> *Id.* at

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<sup>7</sup> Minton also admits now that he never told his patent counsel, who helped him in preparing and filing the '643 patent  
(Continued on following page)

p. 153, ln. 1-4. As a result of Minton's omission, NASD and NASDAQ knew more about the validity of Minton's patent than did his own lawyers.

**E. NASD and NASDAQ Obtain Summary Judgment - the Commercial Lease of TEXTCEN more than One Year before Applying for the '643 Patent Invalidates the 643 Patent**

NASD and NASDAQ moved for summary judgment on Minton's claims on the ground that the '643 patent was invalid under the on sale bar. Exhibit B, p. 1. NASD and NASDAQ argued that TEXTCEN incorporated the claimed invention and that Minton's commercialization of TEXTCEN prior to the critical date of June 28, 1995 (*i.e.*, the March 8, 1995 TEXTCEN lease with Stark) invalidated the '643 patent under the on sale bar. *Id.* at 2.

In support of their contention that TEXTCEN was the subject of a commercial offer for sale prior to the critical date, NASD and NASDAQ cited a wide range of evidence, the most damaging of which came from the plain language of the lease and Minton's own testimony. As noted above, the lease stated TEXTCEN already was developed, offered it for use

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application, about the TEXTCEN lease. See Exhibit D-1, p. 120, ln. 4-10. Minton did not hire patent counsel until more than a year had already passed after the TEXTCEN lease, *i.e.*, until it was too late to apply for a valid patent. *Id.*

with customers, required payment for a lease period up to 13 years, warranted that it would perform in a workmanlike manner, and stated that the lease was issued for the express purpose of "opening brokerage accounts and executing trades for individuals using TEXTCEN". Exhibit G, at Preamble, ¶¶ 2, 3, 8. Minton also testified that: (1) the lease with Stark was "commercial" in nature; and (2) Minton "expected to benefit financially" from that lease:

Q: Okay. And they were – now, they were seeking – still seeking the regulatory approval, correct?

A: Yes, sir.

Q: ***But subject to that regulatory approval, what was contemplated was that Stark would set up a system using the TEXTCEN software program and – to use it commercially, correct?***

A: Yes, sir.

Q: And – and that occurred beginning in March 1995, correct?

A: Yes, sir.

Q: ***And you expected to benefit financially from that arrangement, correct?***

A: Yes, sir.

Exhibit E, p. 547 (emphasis added).



Minton responded to the summary judgment motion by arguing that TEXTCEN was substantially different from the '643 patent and, therefore, the Stark lease of TEXTCEN could not invalidate his patent. Exhibit B, p. 6. The district court rejected Minton's argument and granted summary judgment that the '643 patent was invalid. *Id.* at 54.

**F. After Summary Judgment, Minton Claims that the TEXTCEN Lease was for Experimental, not Commercial, Purposes.**

In the days after the summary judgment ruling, Minton contacted his lawyers and asked them to now consider a new position – the experimental use doctrine in an effort to negate the finding of an on-sale bar. Exhibit D, pp. 195-197. Minton provided them the information he had to try to support such an argument. However, that evidence amounted to nothing more than Minton's own new subjective conclusion, in which he proclaimed that the TEXTCEN lease really had been for an experimental purpose. He did not provide his attorneys with any documents leading up to the lease to support his new position of experimental use. Exhibit D, pp. 430-32.

Minton asserted the experimental use doctrine in a motion for reconsideration of the summary judgment. Exhibit D, p. 197. Defendants did not brief experimental use, but instead Minton relied on new intellectual property co-counsel to draft the

experimental use argument.<sup>8</sup> *Id.* at p. 197, p. 362, ll. 21-25. Minton also worked with the new co-counsel to prepare Minton's declaration in support of the motion. *Id.*

The district court considered Minton's motion for reconsideration, but denied it for the reasons set forth in its original opinion. Exhibit C, Order, p. 1-2.

### **G. The United States Court of Appeals for the Federal Circuit Affirms the District Court's Judgment**

Minton appealed, and the Federal Circuit affirmed the district court's judgment in full. *Minton*, 336 F.3d at 1374, 1381. The Federal Circuit declined to address the merits of the experimental use doctrine. *Id.* at 1380-81. The appellate court held that the district court did not consider the doctrine in the motion for reconsideration, despite the broad language of the district court order stating that it considered and denied the motion for reconsideration, which included the experimental use argument. *Id.* at 1381-82.

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<sup>8</sup> Minton has not sued the co-counsel who briefed the experimental use doctrine and prepared the affidavit in support.

**H. Minton Files This Legal Malpractice Suit Against the Attorneys Who Represented Him in the Underlying Litigation, Claiming they Should Have Pursued an Experimental Use Argument as to the TEXCEN Lease**

On August 25, 2004, Minton filed the present legal malpractice action against the attorneys and law firms who represented him in the patent infringement action. Plaintiff's Original Petition (Exhibit J). Minton's sole allegation in this case is that the Defendants negligently failed to timely plead and brief the experimental use doctrine in response to NASD and NASDAQ's contentions that the '643 patent was invalid under the on sale bar resulting in a take nothing judgment against Minton in the patent suit:

[Defendants] breached their duty to Plaintiff in at least the following respects:

- a. Failing to timely plead and brief the experimental use defense in response to the claim of the on-sale bar by the NASD and NASDAQ;
- b. Failing to timely plead and brief the experimental use defense in response to the Court's Order for briefing on the obviousness issue.

*Id.* at ¶ 27.

Minton confirmed in his deposition testimony in this case that he has no other complaints against his attorneys. Exhibit D, at 15-17.

#### **IV. SUMMARY JUDGMENT EVIDENCE**

True and correct copies of the following exhibits are attached in support of Defendants' motion for partial summary judgment and are expressly incorporated by reference herein:

- |             |                                                                                         |
|-------------|-----------------------------------------------------------------------------------------|
| Exhibit A   | United States Patent No. 6,014,643                                                      |
| Exhibit B   | February 5, 2002 District Court's Memorandum Opinion                                    |
| Exhibit C   | July 18, 2002 District Court's Order Denying Plaintiff's Motion for Reconsideration     |
| Exhibit D   | March 1-2, 2005 Excerpts from Deposition of Vernon Minton                               |
| Exhibit D-1 | March 1, 2005 Confidential Excerpts from Deposition of Vernon Minton - Filed Under Seal |
| Exhibit E   | February 6-7, 2001 Excerpts from Deposition of Vernon Minton                            |
| Exhibit F   | January 25, 1995 Letter From TISE (Minton's Company) to Stark (with Attachments)        |

- Exhibit G     March 8, 1995 Agreement of Lease of TEXCEN to Stark
- Exhibit H     November 1, 1995 Unanimous Consent to Director Action
- Exhibit I     February 19, 2002 Plaintiff's Motion for Reconsideration
- Exhibit J     August 25, 2004 Original Petition filed by Vernon Minton

## **V. ARGUMENT AND AUTHORITIES**

### **A. Standards for Summary Judgment Under Texas Rules of Civil Procedure 166a(c) and 166a(i)**

Summary judgment under Texas Rule of Civil Procedure 166a(c) is proper when the movant establishes that there is no genuine issue of material fact and that it is entitled to judgment as a matter of law. *See, e.g., TEX. R. CIV. P. 166a(c); Fort Worth Osteopathic Hosp. v. Reese*, 148 S.W.3d 94, 99 (Tex. 2004). Summary judgment is proper if the defendant negates at least one essential element of each of the plaintiff's causes of action. *See, e.g., Walker v. Harris*, 924 S.W.2d 375, 377 (Tex. 1996). After the movant produces evidence entitling it to summary judgment, the burden shifts to the nonmovant to present evidence creating a fact issue. *Id.*

Texas Rule of Civil Procedure 166a(i) authorizes "no-evidence" motions for summary judgment. TEX. R. CIV. P. 166a(i). Under Rule 166a(i), a party may move

for summary judgment if, after adequate time for discovery, there is no evidence of one or more essential elements of a claim on which the nonmovant would have the burden of proof at trial. *Id.* The trial court **must** grant the motion unless the nonmovant presents summary judgment evidence raising a genuine issue of material fact. *Id.* "A genuine issue of material fact exists if the nonmovant produces more than a scintilla of evidence establishing the existence of the challenged element." *Fort Worth Osteopathic Hosp.*, 148 S.W.3d at 99.

**B. Requirements for Establishing a Legal Malpractice Claim - Minton's Burden to Prove the "Case within the Case".**

Minton's sole claim against Defendants is for legal malpractice. Exhibit J, Plaintiffs Original Petition. To establish a legal malpractice claim, a plaintiff must prove that: (1) the attorney owed the plaintiff a duty; (2) the attorney breached that duty; (3) the breach proximately caused the plaintiff's injuries; and (4) damages occurred. *See, e.g., Alexander v. Turtur & Assocs., Inc.*, 146 S.W.3d 113, 117 (Tex. 2004); *Peeler v. Hughes & Luce*, 909 S.W.2d 494, 496 (Tex. 1995). More specifically, "[w]hen the plaintiff's allegation is that some failure on the attorney's part caused an adverse result in prior litigation, the plaintiff must produce evidence from which a jury may reasonably infer that the attorney's conduct caused the damages alleged." *Alexander*, 146 S.W.3d at 117.



Summary judgment is proper in legal malpractice cases where a plaintiff cannot, as a matter of law, meet his burden of proof on the essential element of causation. *See, e.g., Rodriguez v. Klein*, 960 S.W.2d 179, 184 (Tex. App. – Corpus Christi 1997, no pet.) (citing multiple cases on this point); *Mackie v. McKenzie*, 900 S.W.2d 445, 449, 451-52 (Tex. App. – Texarkana 1995, writ denied) (citing additional cases and affirming summary judgment for attorneys for lack of causation because plaintiff could not have prevailed in the underlying will contest as a matter of law).

**C. Minton cannot Meet his Burden of Proof: As a Matter of Law, the Experimental Use Exception did not Apply.**

Defendants are entitled to summary judgment on Minton's legal malpractice claim because Defendants did not proximately cause Minton's alleged damages as a matter of law and/or there is no evidence that Defendants' alleged breach proximately caused Minton's alleged damages. As shown below, the on sale bar would have invalidated the '643 patent even if Defendants had pleaded and briefed the experimental use doctrine earlier because the record establishes as a matter of law that the TEXCEN lease with Stark was a commercial offer for sale, and/or there is no evidence to the contrary.

**1. Minton Could Not Have Established Experimental Use in the Underlying Litigation with an Affidavit That Contradicted His Previous Deposition Testimony**

To support his arguments on the experimental use doctrine in his motion for reconsideration, Minton relied on his own after-the-fact affidavit purporting to establish that the primary purpose of the TEXCEN lease with Stark was experimental. Exhibit I, p. 7. That affidavit could not have established a genuine issue of fact on experimental use because the affidavit contradicted his prior deposition testimony in the Underlying Litigation, and thus cannot be considered valid evidence of experimental purpose.

Minton unequivocally testified that the primary (if not exclusive) purpose of the lease was commercial. Exhibit E, p. 547 (Q: But subject to that regulatory approval, what was contemplated was that Stark would set up a system using the TEXCEN software program and – to use it commercially, correct? /A: Yes, sir. . . . ; Q: And you expected to benefit financially from that arrangement, correct?/A: Yes, sir.; Exhibit D, pp. 106-07 (testimony by Minton affirming truthfulness of that statement); *see also* Exhibit E, p. 75 (“Q: And the – what was the – what were your plans for [Texas Computer Network’s] business? / A: To lease the TEXCEN software to a broker-dealer? / Q: For profit? / A: For revenues, yes, sir”); Exhibit D, p. 81 (testimony by Minton affirming truthfulness of that statement).

Minton's deposition was replete with additional testimony that the primary purpose of the TEXCEN lease with Stark was commercial – and could not have been experimental – because TEXCEN was operational at the time the lease was executed. For example:

- Minton testified that the purpose of the lease was “to allow the Stark brokerage firm to use our software.” Exhibit E, p. 72; Exhibit D, pp. 104-05 (testimony by Minton affirming truthfulness of that statement). When asked what he expected Stark to do with TEXCEN, Minton further testified that he hoped Stark “would use it with his customers and pay us a licensing fee.” Exhibit E, p. 73; Exhibit D, p. 105 (testimony by Minton affirming truthfulness of that statement). Minton also testified that it was his intention that Stark would try to get individuals signed up as customers to use TEXCEN. Exhibit E, p. 73.
- At his deposition in the Underlying Litigation, Minton produced disk copies of TEXCEN dated as early as May 10, 1995 that Minton described as “operational” programs that “worked” and that were distributed at various times to interested parties. Exhibit E, pp. 264-67, 361-62, 464. Minton further testified at his deposition in the present action that, throughout 1994, he distributed a disk containing an operational demonstration

copy of TEXTCEN to people who visited his office to view TEXTCEN. Exhibit D, pp. 87-88.

- Minton testified that TEXTCEN was [sic] “would do the basic things” it was designed to do as of the time the TEXTCEN lease was executed on March 8, 1995 and that once the SEC granted approval of TEXTCEN he would be “ready to go.” Exhibit E, p. 518; Exhibit D, pp. 103-04 (testimony by Minton affirming truthfulness of that statement).
- Minton testified that, outside of the NASD’s failure to approve TEXTCEN, he could not think of any reason why Stark would have been unable to proceed with commercially using and earning revenue from TEXTCEN. Exhibit E, p. 77, 516-17; Exhibit D, pp. 108-11 (testimony by Minton affirming truthfulness of that statement).

Nowhere in his affidavit submitted with his motion for reconsideration did Minton attempt to reconcile his affidavit testimony with his earlier contradictory deposition testimony. Exhibit I, pp. 3-8 and attached Minton Affidavit, ¶¶ 10-12. Therefore, Minton could not have manufactured an issue on experimental use by filing a conflicting affidavit that the TEXTCEN lease with Stark *was not* a commercial offer for sale. Under well-established precedent, a party cannot manufacture a fact issue for the purpose of defeating a motion for summary judgment simply

by submitting an affidavit that contradicts his own prior deposition testimony. *See, e.g., Sinskey v. Pharmacia Ophthalmics, Inc.*, 982 F.2d 494, 498 (Fed. Cir. 1992) ("A party cannot create an issue of fact by supplying an affidavit contradicting his prior deposition testimony, without explaining the contradiction or attempting to resolve the disparity"); *Albertson v. T.J. Stevenson & Co.*, 749 F.2d 223, 228 (5th Cir. 1984) ("Although the court must resolve all factual inferences in favor of the nonmovant, the nonmovant cannot manufacture a disputed material fact where none exists. Thus, the nonmovant cannot defeat a motion for summary judgment by submitting an affidavit which directly contradicts, without explanation, his previous testimony.") (citations omitted).

The Federal Circuit's decision in *Sinskey* is virtually on all fours with the facts of this case. In *Sinskey*, the inventor sued the defendant for patent infringement. *Sinskey*, 982 F.2d at 496. The defendant moved for summary judgment, asserting that certain patent claims were invalid under 35 U.S.C. § 102(b) based on the inventor's and another company's public use and sale of the claimed invention more than one year prior to the filing of the patent application. *Id.* In response to the defendant's motion, the inventor argued that the prior use and sale in question was for experimental purposes and did not trigger the public use or on sale bar under Section 102(b). *Id.* The district court granted the defendant's motion for summary judgment, holding that the

inventor failed to raise a genuine issue of fact on experimental use. *Id.*

The Federal Circuit affirmed. *Id.* at 499. The Federal Circuit observed that the inventor previously had testified during his deposition that no testing of the product sold was required and that the product sold would work. *Id.* at 497. In his declaration filed in response to the defendant's motion for summary judgment, however, the inventor testified that he considered the product sold to be experimental. *Id.* The Federal Circuit held that the inventor's failure to explain the "facial inconsistency" between his prior deposition testimony and his declaration did not raise a genuine issue of material fact on experimental use so as to defeat summary judgment:

There is no explanation for this facial inconsistency, and the declaration does not attempt to reconcile the conflict; indeed, it does not address [the inventor's] deposition testimony at all.

A party cannot create an issue of fact by supplying an affidavit contradicting his prior deposition testimony, without explaining the contradiction or attempting to resolve the disparity. Where, as here, a party has been examined extensively at deposition and then seeks to create an issue of fact through a later, inconsistent declaration, he has the duty to provide a satisfactory explanation for the discrepancy at the time the declaration is filed. To allow him to preclude summary judgment simply by contradicting his own



prior statements would seriously impair the utility of Federal Rule of Civil Procedure 56. The trial court properly disregarded the declaration in assessing the existence of a genuine issue of fact.

*Id.* at 498 (citations omitted).

As set forth below, there is no contemporaneous evidence of experimental purpose and the only objective evidence is to the contrary. Accordingly, even if Minton could explain the inconsistency between his affidavit and his deposition testimony, that explanation could not establish experimental use. Under *Sinskey*, Minton's experimental use argument fails as a matter of law.

## **2. The Objective and Contemporaneous Evidence Trumps Minton's Litigation-Inspired Affidavit of Experimental Use and Establishes as a Matter of Law That the TEXTCEN Lease Was a Commercial Offer for Sale**

Even if Minton's affidavit were considered, it would not have supported a legal conclusion of experimental use. In *Sinskey*, the Federal Circuit observed that even if the inventor's declaration were consistent with the inventor's prior deposition testimony, it still would not have defeated summary judgment because the inventor's "[p]ost-hoc" recharacterization of the experimental nature of the product sold was insufficient to create a fact issue on experimental use:

*Post-hoc affidavit testimony alone, years after the events described and purporting to show an inventor's subjective experimental intent, will never satisfy the burden of establishing experimental use in a case like this where there is no contemporaneous evidence of experimental purpose and the objective evidence is to the contrary.*

*Id.* at 499 (emphasis added).

Experimental purpose of an offer for sale must be established through objective, contemporaneous evidence. *Allen Eng'g Corp.*, 299 F.3d at 1354 (quoting *EZ Dock*, 276 F.3d 1347). A court must determine as a question of law whether an offer is primarily experimental or commercial based on the totality of the objective, contemporaneous evidence. *Petrolite*, 96 F.3d at 1426-27; *Baxter*, 88 F.3d at 1060. A litigation-inspired affidavit will never satisfy the burden of establishing experimental use where there is no contemporaneous evidence of experimental purpose and the objective evidence is to the contrary. *Sinskey*, 982 F.2d at 499.

The record in the Underlying Litigation contained, in addition to Minton's own sworn testimony that the primary purpose of the TEXCEN lease with Stark was commercial, objective evidence overwhelmingly and unequivocally confirming that the lease was commercial, not experimental:

- In a January 25, 1995 letter to Stark, Minton offers to sell TEXCEN to Stark:

“As we discussed, The Texas International Stock Exchange, Inc. would appreciate your consideration *in utilizing this program as an exclusive opportunity for enhanced order flow.*” Exhibit F (emphasis added).<sup>9</sup>

The letter further states that “[a]fter five years of development, TEXTCEN is scheduled to be on-line during March or April of [1995]” – the same time or one month after the TEXTCEN lease was executed on March 8, 2005. *Id.*; Exhibit E, p. 506 (testimony by Minton affirming truthfulness of that statement). In his deposition in the patent infringement action, Minton clarified that “on-line” means “operational” and testified that said schedule was accurate. Exhibit E, p. 506 (“Q: And when you say ‘on-line,’ did you mean that it would be – the program would be operational? / A: Yes, sir. / Q: Okay. And therefore, you’d be ready to enter into a lease with him by March of 1995? / A: Yes, sir. / Q: And that, in fact, was accurate, that schedule – you kept to that schedule more or less, didn’t you? / A: Yes, sir”).

- A draft lease included with the January 25, 1995 letter states that TEXTCEN is

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<sup>9</sup> Minton testified that “enhanced order flow” meant that Stark “would have customers who could use the program and get more business to his company.” Exhibit D, pp. 143-44.

being leased "*for the purpose of opening brokerage accounts and executing trades for individuals using TEXCEN.*" Exhibit F, Preamble of attached Lease.

- On March 8, 1995, Minton executes an "Agreement of Lease" with Stark for TEXCEN. Exhibit G. The preamble of the lease expressly states: "[Stark] . . . wishes to lease TEXCEN from TISE *for the purpose of opening brokerage accounts and executing trades for individuals using TEXCEN.*" *Id.* at Preamble (emphasis added); Exhibit D, p. 101 (testimony by Minton affirming truthfulness of that statement).
- The lease unequivocally represents that Minton's company "has developed" TEXCEN. Exhibit G, Preamble.
- The TEXCEN lease granted Stark the right to use TEXCEN for the lesser of \$2,000 per month or 30% of gross revenues and granted Stark the right to offer TEXCEN to his prospective customers for "free, with only a low down loading or shipping and handling fee." Exhibit G at ¶ 3; Exhibit F.
- The TEXCEN lease expressly warranted that TEXCEN was operational and would achieve its intended purpose. *Id.* at ¶ 8 ("**TISE WARRANTS THAT TEXCEN WILL PERFORM IN A WORKMAN-LIKE MANNER**") (emphasis in original);

Exhibit D, p. 102 (testimony by Minton affirming truthfulness of that statement).<sup>10</sup> Minton testified that the above warranty meant that TEXTCEN “would allow people to enter an order” and to trade “[a]s intended.” *Id.* at 517-18.

- The TEXTCEN lease provides for an initial term of 3 years, but Stark could exercise options to extend the lease period for an additional 10 years. Exhibit G, ¶ 3. The lease does not identify any period of the lease as for experimental purposes. *Id.*

Minton admits that these documents – the January 25, 1995 letter to Stark, the enclosed draft Agreement of Lease, and the March 8, 1995 signed Agreement of Lease – are the ***only contemporaneous documents relating to the purpose of the Stark lease***. Exhibit D, pp.148-149 (also identifying a directors’ ratification of the lease, discussed below).

Not only does the only objective documentation defeat Minton’s experimental use claim, but so does the *other contemporaneous evidence*. In the Underlying Litigation, Minton submitted no evidence that he

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<sup>10</sup> A finding that TEXTCEN actually was operational at the time the TEXTCEN lease was executed on March 8, 1995 is not strictly necessary to establish that the lease was commercial rather than experimental. The key fact is that the objective and contemporaneous evidence within the lease agreement itself confirms that the primary purpose of the lease was commercial, not experimental.

told Stark that the lease was for experimentation. See Exhibit I. Minton now admits that he never told Stark that the primary purpose of the lease was to develop, test or experiment with TEXCEN. See Exhibit D, p. 99, ln. 17-19; p. 318, ln. 19-22. Minton's failure to communicate the supposed experimental purpose of the Lease to the only other party to the Lease is *fatal* to his claim for experimental use. *Paragon Podiatry Laboratory, Inc. v. KLM Laboratories, Inc.*, 984 F.2d 1182, 1186-87 (Fed. Cir. 1993); *La Bounty Mfg., Inc. v. United States Int'l Trade Comm'n*, 958 F.2d 1066, 1072 (Fed. Cir. 1992); *Robbins Co. v. Lawrence Manufacturing Co.*, 482 F.2d 426(9th Cir. 1973).

The only evidence offered by Minton in the Underlying Litigation was his subjective intent of experimentation presented in a litigation-inspired affidavit. Exhibit I, pp. 3-8 and attached Minton Affidavit, ¶¶ 10-12. ***A seller's mere assertion that the primary purpose of the sale was experimental is not sufficient as a matter of law to establish experimental use.*** *Sinskey* 982 F.2d at 499. See also discussion *infra*, p. 9 (discussing authority holding that post-litigation affidavit, in itself, cannot establish genuine issue of fact on experimental use)

In rejecting inventors' post-litigation, subjective testimony regarding the nature of an offer for sale, the Federal Circuit stated in *Sinskey* that contemporaneous, objective evidence on that issue should be given dispositive weight in determining whether the



primary purpose of the offer for sale was commercial or experimental. In this case, the contemporaneous, objective evidence discussed above – particularly when considered in conjunction with Minton's deposition testimony in the Underlying Litigation – establishes as a matter of law that the primary purpose of the TEXTCEN lease was commercial, not experimental.

### **3. Additional Evidence Confirms That the TEXTCEN Lease Was a Commercial Offer for Sale**

In addition to the evidence made of record in the Underlying Litigation, additional evidence discovered in the present legal malpractice action confirms that the TEXTCEN lease with Stark was a commercial offer for sale:

- Minton reported to his company's Board of Directors as of July 8, 1994 that he planned to *finish* TEXTCEN, and *then* sign a lease with a broker/dealer. Exhibit D, p. 76, ln. 15-25.
- The "front end" of TEXTCEN (*i.e.*, the software used by the customer) was working by 1994. Exhibit D, p. 81, ln. 19-21. Minton leased this software to Stark. *Id.* at p. 76, ln. 15-25.
- Throughout 1994, Minton demonstrated a working TEXTCEN to people, provided them with diskettes with working versions of TEXTCEN, developed a user

manual for TEXTCEN, and approached two broker/dealers about leasing the program. *Id.* at p. 87, ln. 18- p. 89, ln. 16.

- Minton demonstrated TEXTCEN to NASD officials and gave them a working copy on diskette. *Id.* at p. 159, ln. 16- p. 160, ln. 2.
- Minton erroneously believed that he had an agreement in principle with another broker/dealer in 1994 before negotiating a lease with Stark. *Id.* at p. 90, ln. 8-13.
- Minton hoped that Stark would use TEXTCEN with its customers and pay Minton a licensing fee. *Id.* at p. 105, ln. 2-24. The purpose of the lease was for Minton and Stark to make money. *Id.* at p. 261, ln. 2-19.
- Minton never told Stark that the primary purpose of the TEXTCEN lease was to test TEXTCEN. Exhibit D, pp. 318-19.
- Before the Stark lease, Minton developed code that allowed TEXTCEN to communicate between computers (*i.e.*, the "back-end") on a local area network ("LAN"). *Id.* at p. 212, ln. 6-24. Minton tested TEXTCEN on the LAN, and it worked. *Id.* Minton planned to add the ability for TEXTCEN to communicate over the internet (TCIP), and he had "no doubt" that it would work. *Id.*
- Minton testified that there is nothing in the TEXTCEN lease indicating that any

testing would be done on TEXTCEN or that Stark was required to participate or assist in any testing of TEXTCEN. *Id.* at 254-56.

- Although Minton now claims to have planned in his head to test TEXTCEN with Stark's customers, Stark could charge the customers for using TEXTCEN and Minton could collect a licensing fee. *Id.* at p. 245, ln. 5- p. 246, ln. 16.
- Minton and the rest of the Board of Directors of his company approved the TEXTCEN lease to Stark and stated that the purpose of the TEXTCEN lease was "**for the purpose of executing stock trades and other business.**" Exhibit H, 11/1/95 Unanimous Consent to Director Action; Exhibit D, pp. 301-3.
- Minton never told the Defendants in this case that the primary purpose of the TEXTCEN lease was experimental. Exhibit D, p. 168.
- Minton provided his in-house legal counsel with the basic terms of the lease to Stark to draft the agreement. *Id.* at 251. However, Minton neither discussed experimentation of TEXTCEN with counsel nor asked him to include any language concerning the testing of TEXTCEN. *Id.*
- Although Minton contends that a purpose of the TEXTCEN lease was to test TEXTCEN (which there is no evidence to

support), Minton testified that the lease also covered any commercial use of TEXCEN by Stark. *Id.* at 262-65. Thus, in light of the overwhelming evidence that the primary purpose of the TEXCEN lease was commercial, whatever evidence of experimentation (if any) that may exist would not establish a genuine issue of fact that the **primary** purpose of the TEXCEN lease was to conduct experimentation on TEXCEN.

All of the foregoing evidence confirms that the purpose of the Stark lease of TEXCEN was commercial and not experimental. There is no credible evidence to the contrary.

## VI. CONCLUSION

For the reasons stated in this Motion, Defendants respectfully request that their Joint Motion for Summary Judgment be granted in all respects, and that judgment be rendered that Plaintiff take nothing against Defendants on all claims and causes of action asserted herein. Defendants further request such other relief as to which they may be justly entitled.

Respectfully submitted,

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|------------------------------|-------------------|
| VERNON F. MINTON,            | § IN THE DISTRICT |
| Plaintiff                    | § COURT OF        |
| v.                           | § TARRANT COUNTY, |
|                              | § TEXAS           |
| JERRY W. GUNN, Individually, | §                 |
| WILLIAMS SQUIRE & WREN,      | §                 |
| LLP, JAMES E. WREN,          | §                 |
| Individually, SLUSSER &      | §                 |
| FROST, L.L.P., WILLIAM C.    | §                 |
| SLUSSER, Individually,       | §                 |
| SLUSSER WILSON &             | §                 |
| PARTRIDGE LLP,               | §                 |
| MICHAEL E. WILSON,           | §                 |
| Individually                 | § 48th JUDICIAL   |
| Defendants                   | § DISTRICT        |

**PLAINTIFF'S RESPONSE AND BRIEF**  
**IN OPPOSITION TO DEFENDANTS' JOINT**  
**MOTION FOR SUMMARY JUDGMENT**

Plaintiff Vernon F. Minton ("Plaintiff" or "Minton") respectfully submits this Response and Brief in Opposition to the Joint Motion for Summary Judgment of Defendants Jerry W. Gunn, Squire & Wren, LLP, James E. Wren, Slusser & Frost, L.L.P., William C. Slusser, Slusser Wilson & Partridge LLP, and Michael E. Wilson (Defendants' motion) in this legal malpractice action. The grounds for this opposition are that Defendants' motion, which rests entirely on the merits of the "case within a case" that Defendants failed to assert in the underlying lawsuit, is unsupportable

in view of the substantial evidence supporting Plaintiff's claims.

\* \* \*

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Table Of Authorities Omitted In Printing]

## I. FACTS

### A. "Texcen" and Texas International Stock Exchange, Inc.

Plaintiff Vernon F. Minton (Minton) is a computer programmer and an inventor. In 1993, Minton formed a company named the "Texas International Stock Exchange, Inc." (TISE) and issued a Preliminary Prospectus for it on or about April 1993.<sup>1</sup> (Exhibit 2). In connection with this, Minton learned computer programming on his own and began writing computer software for a program that would later be called TEXCEN. (Exhibit 34b at p. 295, ln. 5-24; Exhibit 33a at p. 53, ln. 2-18; p. 62, ln. 16 to p. 63, ln. 20.) The programming is in Visual Basic.<sup>2</sup> (Exhibit 33c at p. 749, ln. 10 to p. 750, ln. 4.)

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<sup>1</sup> This Preliminary Prospectus included descriptions of user-interface trading screens similar to screens that TEXCEN would later have. (Exhibit 2, at PLTF 6084-6, 6108)

<sup>2</sup> "BASIC" stands for "Beginner's All-Purpose Symbolic Instruction Code. (Exhibit 43). It is a simple language originally designed for ease of programming by students and beginners. *Id.*

After writing computer code sufficient for TEXTCEN to do basic things, Minton, who was not himself a securities broker-dealer at the time, reached the point where he needed to secure the cooperation of a licensed broker dealer so that he could make the program operational, evaluate the operation and test it "under load" to ensure its reliable operation. (Exhibit 34a, at p. 78, lns. 15-24, p. 252, ln. 11 to p. 253, ln. 20; Exhibit 34b at p. 318, ln. 19 to p. 319, ln. 4; Exhibit 35, Pars. 3, 10-12). In fact, NASDAQ required testing before it would approve implementation for widespread customer use. (Exhibit 35, Par. 10).

After some initial unsuccessful contacts with brokers, Minton discussed his need to further develop, evaluate and test TEXTCEN in cooperation with a broker with Mr. Gary L. Stark (Stark), president of R.M Stark & Co. (RMST). RMST is a Florida-based brokerage firm. During discussions, Minton told Stark that TEXTCEN "needed to be tested before we would be operational" and that "to get the program operational, we had to test it under load with a brokerage firm." (Exhibit 34a at p. 252, ln. 4 to p. 253, ln. 20, Exhibit 34b at p. 318, ln. 19 to p. 319, ln. 4).

Minton gave Stark a draft of a Software Assistance Guide, Ver. 4.0, for the TEXTCEN software that was being developed. (Exhibit 29). The Guide expressly cautioned that "development of TEXTCEN will be an on-going process." (Exhibit 29, Page 1; Exhibit 34b at p. 347, lns. 8-17). Page 3 of the Guide, in the section entitled, "Textcen's Present/Future Capabilities" lists a

number of features as either present or "future."  
(Emphasis added.)

At this time, the front end of TEXTCEN (the part a customer would see)<sup>3</sup> had been successfully tested in only a very limited environment; on *one computer* connected on a Local Area Network (LAN) at Minton's home in Fort Worth. (Exhibit 34a at p. 207, ln. 23 to p. 208, ln. 24; Exhibit 34b at p. 444, lns. 9-23). Minton gave Stark a demonstration of the TEXTCEN front end to Stark under those limited circumstances. *Id.*

The intended operating environment of TEXTCEN requires communication over the Internet, however, not a LAN.<sup>4</sup> After the demonstration to Stark of TEXTCEN operating on a LAN, Minton attempted a demonstration of TEXTCEN operating over the Internet to Stark, as well as to employees of the NASD.<sup>5</sup>

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<sup>3</sup> The front end of TEXTCEN is like the AOL CD you receive in the mail. It is the user interface between the user and the back end of the network. (Exhibit 34a at p. 76, lns. 6-14). The front end is the part of the program where individuals open new accounts, place limit orders, submit orders for execution by the broker and interface with the network. (Exhibit 34a at p. 204, lns. 10-15).

<sup>4</sup> The technology used for communication between computers on a LAN is not the same as the TCPIP technology used for communication over the Internet (the necessary means of communication for the TEXTCEN system) nor are the conditions the same; a LAN being designed for a fixed location and not suitable for city to city communication. (Exhibit 34b at p. 209, ln. 5 to p. 211 ln. 3; 239).

<sup>5</sup> The "National Association of Securities Dealers, Inc." For simplicity, NASD is also generally used herein to refer to the related entity, NASDAQ, Inc.

(Exhibit 34a at p. 252, ln. 4 to p. 253, ln. 24). The software failed to operate properly, due to a "big bug" of undetermined origin. *Id.* After that failure, Stark demanded that Minton "make sure it works" before demonstrating it to NASD again. (Exhibit 34a at p. 253, lns. 16-24).

At this time, just the "basic things" of *TEXCEN* worked, by which Minton meant the front end part of *TEXCEN only*. (Exhibit 33b at p. 518, lns 10-11; Exhibit 34a at p. 103, ln. 5 to p. 104, ln. 5). The "back end" of *TEXCEN*, which served as the "brains" of the system, was not at all complete or tested.<sup>6</sup> (Exhibit 34a at p. 205, ln. 8 to p. 213, ln. 2; p. 224, ln. 21; p. 229, ln. 13 to p. 230, ln. 11). The *TEXCEN* front end cannot display meaningful data without the back end. (Exhibit 34b at p. 348, ln. 4 to p. 349, ln. 13).

At this time, only an untested "framework" of the back end was in place and whether it would work in its intended environment was "highly doubtful." (Exhibit 34a at p. 205, ln. 20 to p. 206, ln. 10). The back end had only been satisfactorily tested on a LAN, not its intended environment of operating over the

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<sup>6</sup> The back end of *TEXCEN* (the "brains") is the networking feature which allows individuals to negotiate with the trade desk. And the back end of the system provides the data for the displays on the front end. The back end of the system allows the confirmation of any execution that the broker may have filled. The back end provided data for making decisions in terms of news and prices. The back end provided a database for all the users in the systems and the security and the distribution of the data. (Exhibit 34a at p. 205, lns. 8-19).



Internet. (Exhibit 34b at p. 444, lns. 14-23). The back end had never been debugged and was not operable or functional. (Exhibit 34a at p. 205, ln. 20 to p. 207, ln. 3). The back end remained at Minton's home in Fort Worth, physically locked in a cage in his garage. (Exhibit 34a at p. 112, lns. 6-13; p. 225, ln. 3 to p. 226, ln. 1).

Despite the incomplete nature of TEXCEN development and the failure of the demonstration over the Internet, Stark sent Minton a letter dated February 28, 1995, expressing interest in the "project" or "venture," though recognizing that it had a "high level of risk" and that Minton required substantial further funds for, in part, "software development." (Exhibit 10). Stark suggested a partnership to accomplish the project. *Id.*

Instead of the partnership structure for the project, Minton's company, TISE and RMST negotiated an Agreement of Lease (1995 Agreement). (Exhibit 12). The parties' relationship, nevertheless, remained cooperative, working toward a common goal in the project. For example, RMST participated in issuing a Private Placement Memorandum for the purpose of obtaining third party investors for TISE, in part, for the software development. (Exhibit 34a at p. 112, ln. 22 to p. 113, ln. 6). In another instance, on August 10, 1995 Stark agreed to put off receiving brokerage fees RMST was entitled to receive to allow the money to be put to use by TISE. (Exhibit 15).



With TEXTCEN and the TISE network still incomplete and untested, the parties discussed and later included a clause giving RMST the right to terminate the agreement if TISE was not "operational" by September 1, 1995, and also giving TISE a similar, reciprocal, termination right. (Exhibit 11, Exhibit 12, Par. 7(A)(1) and 7(B)(1)). Although this paragraph states that TISE had to be "operational," it implied that TISE and/or TEXTCEN as programs had to be "operational," since TISE as a company was already operational on that date. (Exhibit 34b at p. 446, ln. 25 to p. 447, ln. 17).<sup>7</sup>

It being unknown whether TEXTCEN would perform satisfactorily under actual conditions of use when development was complete, to induce RMST to participate in the project, the 1995 Agreement included a warranty that TEXTCEN "will" perform in workmanlike manner (at least, that it will by September 1, 1995, the termination date provided for in Par. 7(B)(1).) (Exhibit 12, Par. 8).

The 1995 Agreement also included a term nominally listing a "rent" based upon 30% of RMST's gross revenues derived from TEXTCEN or \$2000 per month, whichever was less, that Minton's company could receive if TEXTCEN ever became usable on a commercial basis, at least by the September 1, 1995, termination

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<sup>7</sup> The back end servers were never intended to be provided to RMST in the 1995 Agreement and never left Minton's possession. (Exhibit 30, Exhibit 34a at p. 269 ln. 25 to p. 270, ln. 16).

date. (Exhibit 12, Par. 3) (emphasis added). Reflecting the incomplete and untested nature of TEXCEN at this point, this nominal “rent” terms was well below the later-determined value of use of TEXCEN.<sup>6</sup> In fact, TEXCEN never became operational and Minton never actually received any payment. (Exhibit 33a at p. 76, lns. 1-8).

Soon after the 1995 Agreement with RMST was signed, Minton set up a protocol for how the testing would be done with a team on each side (TISE and RMST, respectively). (Exhibit 34a at p. 255, lns. 2-15). Minton set up an interface between employees of his company and RMST who worked on both sides of the telephone. (Exhibit 34a at p. 270, ln. 24 to p. 271, ln. 21).

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<sup>6</sup> For comparison, a later agreement between Texas Computer Network, as TISE was later named, and RMST, dated August 14, 1996, recited a payment of \$2000 per month *unconditionally*, whether or not any customers used TEXCEN, *plus* 39 cents (\$0.39) per minute for each subscriber, with *no* maximum. At this time, the TEXCEN system further along, but still neither complete nor successfully tested.

As another comparison, the rent term in the 1995 Agreement is *vanishing small* in comparison to the later-determined royalty value of Minton's United States Patent No. 6,014,643 (the '643 patent) that was the subject of the Underlying Case. At the royalty rates determined by the economic expert hired by *Defendants* in the Underlying Case, Lance Gunderson, royalty under the '643 patent would have yielded Minton between about 4.2 and 6.3 *million* dollars per month, over *two thousand times* the \$2000 per month theoretical maximum nominally recited in the 1995 Agreement. (Exhibit 31 at pp. 3, 15).

During the development and testing, Minton or another member of his team stayed in almost daily communication with Stark and other members of the RMST team. (Exhibit 34a at p. 270, ln. 24 to p. 271, ln. 21; Exhibit 34b at p. 319, ln. 25 to p. 320, ln. 10). To “make sure it worked,” Minton worked 15 hours a day and more for several years “interfacing data, testing it, and . . . ma[king] changes as indicated by all the revisions of the diskettes and the software assistance guides.” (Exhibit 34a at p. 253, lns. 16-24; p. 255, lns. 2-11; Exhibit 33c at p. 616, lns. 18-22). Minton “continually tested it every day” going through “every facet, every line, every form.” (Exhibit 34a at p. 270, ln. 24 to p. 271, ln. 21).

Stark was personally aware of this on-going development and testing throughout the project and personally communicated with Minton and his team throughout the testing period. For example, in a memorandum dated May 2, 1997, and again in a memorandum dated July 17, 1997, Stark referred to “development of” or “developing” the software. (Exhibits 21 and 22). The constant communication between Minton and Stark during the period is also shown by the diary of Richard Dickerson, in which he logged telephone calls from Stark to Minton virtually every day from March 22, 1995 to well past September 1, 1995.<sup>9</sup> (Exhibit 28).

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<sup>9</sup> Dickerson was known to Defendants as the vice president of Minton’s company. (Exhibit 33a, at p. 77, ln. 20-25).

Emails exchanged between employees of RMST and Minton or other members of his team during later testing are also representative of the nature and detail of the experimentation conducted:<sup>10</sup> For example, on July 24, 1998, Stark advises Marty Brasse<sup>11</sup> (Brasse) that “[t]he enhanced version is still not working. When do you expect that it will be?” (Exhibit 24). On the same day, Stark advises Brasse “I need to begin receiving and sending orders from and to you.” *Id.* On September 10, 1998, Brasse advises Stark that he is available “if anyone wants to practice any trades.” *Id.* On October 26, 1998, Brasse advises Stark that he “had the trade desk on if anyone wants to practice trades.” *Id.* On November 2, 1998, Stark writes to Brasse that “I see you have made changes . . . but most of the buttons are not linked to the proper address.” *Id.* On January 4, 1999, Brasse sends Gary Stark a new download. *Id.* On January 8, 1999, Brasse advises Stark of “[l]ots of changes to the browser. Now the market executions are shown.” *Id.* On January 11, 1999, Brasse sends emails to Minton, with copies to Stark, advising of significant errors: In

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<sup>10</sup> Minton's declaration attests that these emails are representative of the substance of communications regarding development and testing during the entire period, beginning soon after the 1995 Agreement was signed. (Exhibit 36). Excerpts from the set of emails in Exhibit 23 are attached as Exhibit 24.

<sup>11</sup> At his deposition in the Underlying Case, Minton identified Marty Brasse as his “beta tester” and a person that “would help [him] debug programs”. (Exhibit 33a at p. 54, ln. 1 to p. 55, ln. 14; p 58, lns. 911). Brasse worked closely with Stark's team in doing so.

one, he reports that “[T]he Trade Desk is putting 100 in special orders whether you enter anything or not.” In another, he reports that he “put in an execution for MHB. When I clicked on All Time & Sales, it only listed my MHB execution and not COMS and MHB.” *Id.*

The development and testing continued until early 1999. On February 2, 1999, Stark sent an email to Minton expressing lingering concerns about the “reliability” of the system, asking when the “project” would be “completed,” and complaining about the time his own employees had been spending in “*reviewing the system, loading, updating, testing, etc.*” (Exhibit 25) (Emphasis added). Soon after this email, RMST elected to terminate participation in the project.

While the foregoing development and testing of TEXCEN discussed above was going on, in mid to late 1995, Minton conceived of a new concept: allowing an individual who was not a broker, specialist or market maker, to actually enter an offer to trade a quantity of a security at a particular price, permit another individual to view that offer, reply to the offer and (subject to the individuals’ actually owning the security and having sufficient funds) executing a trade of the security at the price and quantity specified. (Exhibit 1; Exhibit 33a at p. 24, ln. 11 to p. 25, ln. 12). This concept was not included in the TEXCEN software because, among other reasons, it would violate the “best execution” rule, which was part of the



“NASD Rules of Fair Practice” in force at the time. (Exhibit 35, at Pars. 5-9).

Minton spoke to a patent attorney about his new concept. (Exhibit 33a at p. 37, ln. 15 to 38, ln. 23). This would be Minton’s first ever patent application. (Exhibit 34b at p. 310, lns. 18-22).

Even though **TEXCEN** was different from his new concept, it shared some features. Minton gave the patent attorney a Software Assistance Guide for **TEXCEN** as background material to help him prepare the application. (Exhibit 33a, at p. 39, ln. 14 to p. 40, ln. 10). On June 28, 1996, Minton filed a provisional patent application on his invention. (Exhibit 1).

On August 26, 1996, Minton timely filed a regular patent application, based upon the provisional application and claiming priority from it. (Exhibit 1). During prosecution, of the patent application, whenever the attorney requested information, Minton complied with his wishes. (Exhibit 34b at p. 310, ln. 23 to p. 311, ln. 4).

On January 11, 2000, Minton’s patent was granted and issued as United States Patent No. 6,014,643 entitled “Interactive Securities Trading System” with four claims. (643 patent) (Exhibit 1).<sup>12</sup> The ‘643 patent is generally directed to a computerized securities

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<sup>12</sup> Claims are the numbered paragraphs at the end of the patent and define the invention that the patent owner is entitled to protect.



trading system. The NASD and NASDAQ infringed the '643 patent from the day it was granted.

On January 27, 2000, using the law firm of Felsman, Bradley, Vaden, Gunter & Dillon L.L.P., the patent specialist attorneys who had originally prosecuted Minton's application for the '643 patent (who are not Defendants herein), Plaintiff filed a complaint against the National Association of Securities Dealers, Inc. (the NASD) as Civil Action No. 9:00-CV-0009 in the United States District Court for the Eastern District of Texas, Lufkin Division, styled "*Vernon F. Minton, Plaintiff v. National Association of Securities Dealers, Inc., Defendant*" (the "Underlying Case") asserting that the NASD had infringed and continued to infringe claims 1, 2, 3 and 4 of the '643 Patent. (Exhibit 44).

Minton also discussed legal representation with other attorneys and law firms, including Defendants. During discussions with Defendant James E. Wren (Wren) and his law firm, Defendant Williams Squire and Wren L.L.P. (now Defendant Squire & Wren, LLP) wrote Plaintiff a letter dated April 28, 2000, touting, as the "best approach," using "trial attorneys" who were not "patent attorneys" to "take the lead and develop strategy" and to "hire patent lawyers as necessary to develop the case." In this letter, Defendants Wren and Squires & Wren L.L.P. cited prior judgments of hundreds of millions of dollars he contended were achieved in other cases by using trial attorneys, rather than specialists in the field of law, to take the lead. (Exhibit 4).

Plaintiff replaced his original attorneys with Defendants to represent him in the Underlying Lawsuit. On August 2, 2000, Defendants filed Plaintiff's Second Amended Complaint, a copy of which is attached hereto as Exhibit 45. In the Second Amended Complaint, Defendants added the NASDAQ Stock Market, Inc.

After retaining Defendants, Minton provided all the information they requested, encompassing reams of documents. (Exhibit 26) Richard Dickerson, vice president of TCN, also assisted in gathering documents.<sup>13</sup> (Exhibit 37).

James Massie, Esq. (Massie), who had drafted the 1995 Agreement, also provided documents to Defendants. As attested to in the Declaration of Theodore F. Shiells, the documents Massie produced to Defendants during the Underlying Case included, *inter alia*, the 1995 Agreement (Exhibit 12), the notes showing discussions with Stark about including the clause giving RMST a termination right if TISE was not operational by September 1, 1995 (Exhibit 11), and Stark's February 28, 1995 characterizing the TEXCEN as a "project" or "venture" having "a high level of risk" and still requiring "software development." (Exhibit 10).

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<sup>13</sup> Although Defendants knew that Richard Dickerson was the vice-president of TCN, Defendants never interviewed him. (Exhibit 37).

On February 6-8, 2001, the NASD took Minton's deposition. At that deposition, Minton testified that Stark helped him to "debug" the system (Exhibit 33b at p. 514, lns. 21-23); that Brasse was his "beta tester" and helped him "debug" the programs.<sup>14</sup> (Exhibit 33a at p. 54, ln. 1 to p. 55, ln. 14; p 58, lns. 9-11). He also testified that, during the relevant period, he worked on the TEXCEN code 15 hours a day, sometimes more, "continu[ing] to develop it, to make it better." (Exhibit 33c at p. 616, ln. 20 to p. 617, ln. 10).

Minton is not a lawyer and knew nothing about the "experimental use doctrine" now at issue in this case and never heard about "experimental purpose" from Defendants.<sup>15</sup> (Exhibit 34a at p. 14, ln. 25 to

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<sup>14</sup> By definition, to "debug" is to "search for and eliminate malfunctioning elements or errors in: *debug a spacecraft before launch; debug a computer program.* (Exhibit 43) (Emphasis in original).

A "beta test" is, by definition, "[t]he final stage in the testing of new software *before its commercial release*, conducted by testers other than its developers," or "*a second test of an experimental product (such as computer software) carried out by an outside organization.*"<sup>14</sup> (Exhibit 44) (Emphasis added.)

<sup>15</sup> As Minton would later learn when his patent was held invalid in the Underlying Case, the experimental use doctrine has "long been a fixture of patent law." *Minton v. National Ass'n of Securities Dealers*, 336 F.3d 1373, 1379 (Fed.Cir. 2003). See also, *City of Elizabeth v. Am. Nicholson Pavement Co.*, 97 U.S. 126 (1877) ("The use of an invention . . . by way or experiment, in order to bring the invention to perfection, has never been regarded as such a [barring public] use.").

p. 15, ln. 7; p. 18, ln. 1 to p. 19, ln. 6; p. 166, ln. 20 to p. 167, ln. 12).

On or about February 21, 2001, the NASD served a subpoena on RMST for the production of documents and for deposition testimony. (Exhibit 5). On or about March 2, 2001, RMST produced documents to attorneys for the NASD and to Minton's attorneys (Defendants). (Exhibit 6). These documents included, *inter alia*, copies of the emails of Exhibit 23 discussed above. (Exhibits 38-40).

The NASD did not take RMST's deposition. After reviewing the documents that RMST produced, on May 31, 2001, an NASD attorney met with Stark and interviewed him about the history of RMST's involvement with Minton and the TEXCEN project. Ellen Adler, vice president of RMST, took notes at the meeting that fairly reflect Stark's responses to the NASD attorney's questions. (Exhibit 39).

These notes includes [sic] Stark's statements that when he "considered" the lease, the "system was not completely functional yet." (Exhibit 32a at p. 1 (handwritten) and 32b at p. 1 (typed version))<sup>16</sup>. Those notes also reflect Stark's statements that: "system never worked properly," "GLS [Gary L. Stark] asked Plaintiff what needed to get system working right,"

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<sup>16</sup> Exhibit 32b is a typed version of Exhibit 32a that was prepared by attorneys for Minton for the convenience of the Court in reading Adler's notes. See, Affidavit of Theodore F. Shiells dated September 6, 2005 (Exhibit 38).

"no reliability in transmission," "price never discussed @ 1<sup>st</sup>" but knew lease would not work," "problem was internet transmission of order – then manual entry of order into 2<sup>nd</sup> system," "no cross-over (as exists today)," "unreliable transmission," "lease arrangement never implemented b/c [because] system didn't work," "lease never deemed in existence. No performance," "operational and regulatory q's >> !\$ Never assured it could work," "test software program betwn [between] RMST and [Marty] Brasse," "manual input of system greatest hurdle in 'best execution.'" *Id.* at p. 1-2.

Stark does not recall being interviewed by any of Minton's attorneys (i.e., Defendants) about substantive matters during the Underlying Case. If they had, Stark would have told them what he told the NASD attorney. (Exhibit 40).

After the NASD attorney's May 31, 2001 interview with Stark, NASD chose to never take the deposition of Stark. Defendants did not take Stark's deposition either.

On July 18, 2001, the NASD and NASDAQ filed a Motion for Summary Judgment asserting invalidity of the '643 Patent. (Exhibit 46). A primary contention of the NASD and NASDAQ in their Motion was that the '643 patent was invalid because of the "on-sale bar" contained in 35 U.S.C. § 102(b) and/or 35 U.S.C. § 103(a) in view of the 1995 Agreement leasing the TEXTCEN program to RMST. *Id.*

Section 102(b) of the Patent Statute states that that [sic] an inventor is not entitled to a patent if "the



invention was . . . on sale in this country, more than one year prior to the date of the application in the United States." 35 U.S.C. §102(b). The date of "more than one year prior to the date of the application" is often referred to as the "critical date" for consideration of the date of an accused transaction. There is no dispute in this case that the "critical date" is June 28, 1995.

In summary, in their motion, the NASD and NASDAQ contended that the lease of the TEXTCEN system to RMST constituted placing TEXTCEN "on sale" within the meaning of 35 U.S.C. § 102(b) more than a year prior to the filing date of the application and that the claims of the '643 patent were rendered invalid over TEXTCEN as prior art, either alone as anticipated under 35 U.S.C. §102(b) and/or as obvious over TEXTCEN under 35 U.S.C. § 103(a) in combination with a prior art patent *Adams*.

A fundamental defense to the attempted use of the "on sale" bar is the doctrine of experimental use, under which an accused transaction will not constitute an "on sale" bar if it had a primarily experimental purpose. *City of Elizabeth v. Am. Nicholson Pavement Co.*, 97 U.S. 126 (1887). It is irrelevant to this doctrine that the inventor conducts the experimentation in cooperation with or on the premises of an outside party. As the Supreme Court held *Elizabeth*:

It is not necessary in such a case, that the machine should be put up and used only in



the inventor's own shop or premises. He may have it put up and used in the premises of another, and the use may inure to the benefit of the owner of the establishment. Still, if used under the surveillance of the inventor, and for the purpose of enabling him to test the machine, and ascertain whether it will answer the purpose intended, and make such alterations and improvements as experiences demonstrates to be necessary, and it will still be a mere experimental use, and not a public use, within the meaning of the statute.

97 U.S. at 135.<sup>17</sup> Of course, since Minton was not a lawyer, he was unaware of this doctrine.

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<sup>17</sup> In 1998, the Supreme Court has affirmed the vitality of this doctrine. *Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55, 67 (1998) (on sale bar applies only where accused sale "is commercial rather than experimental in character").

The Federal Circuit Court of Appeals (which hears all appeals in patent infringement cases nationwide) has long applied this doctrine. See, *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 550 (Fed.Cir. 1990) ("It is well settled that a sale that is primarily for experimental purposes, as opposed to commercial exploitation, does not raise an on sale bar"), *Lisle v. A.J. Manufacturing Company*, 398 F.3d 1306, 1313 (Fed.Cir. 2005) ("Experimental use negates patent invalidity for alleged public use.") The fact that a use or offer for sale provides for payment of money is not dispositive. *Monon Corporation v. Stoughton Trailers, Inc.*, 239 F.3d 1253, 1260 (Fed.Cir. 2001) ("fact that a company paid for the use of the patentee's device is not dispositive"). Rather, a multiple factor analysis is used. *Seal-Flex, Inc. v. Athletic Track and Court Construction*, 98 F.3d at 1318, 1323 (Fed.Cir. 1996).

On August 7, 2001, Defendants filed a response to the NASD's motion. Defendants *admitted* that TEXTCEN was "on sale" but contended it was not the same as the invention claimed in the '643 patent in various respects. (Exhibit 47 at p. 1, 7). Defendants' made no attempt to present any evidence or arguments that the 1995 Agreement had an experimental character, which would have completely negated application of the on sale bar to TEXTCEN. *Id.*

On September 19, 2001, Defendants submitted a Surreply to the NASD's motion. (Exhibit 49). That response did not raise the issue of experimental use either. *Id.*

On September 18, 2001, the Court entered an order requiring further briefing on several issues. (Exhibit 48). One of the issues that the Court was clearly concerned about was whether TEXTCEN was prior art to the '643 patent and, if so, whether the '643 patent was invalid as obvious under 35 U.S.C. § 103(a) over TEXTCEN. The Court specifically asked the parties: "*Is there any reason TEXTCEN should not be contained in the prior art.?*" *Id.* at p. 2 (Emphasis added).

Defendants responded to this Order on October 23, 2001. (Exhibit 50). Despite having *another* opportunity to raise the experimental character of the 1995 Agreement to negate the use of TEXTCEN as prior art, Defendants still failed to either plead it or brief it. Instead, Defendants *again* admitted that TEXTCEN was prior art for being "on sale." (Exhibit 50 at p. 2).

In answer to question “D” of the September 18, 2001 Order, which had asked the parties to submit evidence on “objective indicia of non-obviousness,” Defendants responded in footnote 9 of their submission that “there is no need to submit affidavits containing evidence of these allegations, since defendants have not moved for summary judgment under § 103.” *Id.* at p. 10.

Or about January 29, 2002, while the summary judgment motion was still *sub judice*, Minton sent a fax to Defendant Wren (although the “To” line of the letter states Jerry W. Gunn).<sup>18</sup> (Exhibit 7). Item “6” of this letter includes a sample jury instruction on experimental use that Minton had filled out with some information regarding TEXCEN. *Id.* Minton had obtained the jury instruction from a lawyer friend who happened to be an Assistant Attorney General in Austin that he periodically spoke to about the case. (Exhibit 34a at p. 182, ln. 23 to 184, ln. 3).

Around this time, Minton spoke to Defendant Wilson about the possibility of asserting experimental use. Defendant Wilson dismissed it as a “ridiculous argument.” (Exhibit 34a at p. 190, lns. 17-24).

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<sup>18</sup> At his deposition, Minton was not able to confirm that he actually sent the fax on January 29, 2002. However, Minton subsequently located his long distance records, which were produced to Defendants. These long distance records show a call to the fax number of Defendant Wren’s law firm (254-741-6300) on January 29, 2002. (Exhibit 8).

On February 1, 2002, the Court issued its Memorandum Opinion on the motion for summary judgment in the Underlying Case. (Exhibit 52). In the Memorandum Opinion, all of Plaintiff's claims were dismissed with prejudice. The Court held that the on-sale bar applied to **TEXCEN**, and that the claims of the '643 patent were invalid as either anticipated over **TEXCEN** alone, and/or as obvious by the combination of **TEXCEN** and the prior art patent *Adams*. *Id.*

On February 7, 2002, Minton again asked Defendants to consider asserting the experimental use defense he had recently learned about from his Assistant District Attorney friend, enclosing a printed copy of the experimental use jury instructions. (Exhibit 9).

On February 20, 2002, Defendants filed Plaintiffs Motion for Reconsideration asserting for the first time the fact that **TEXCEN** was not prior art because the asserted offers for sale were, in fact, primarily for experimental purposes. (Exhibit 53). However, this assertion was made too late and, on July 15, 2002, the Court denied Plaintiff's Motion for Reconsideration without addressing the merits of the experimental use argument. (Exhibit 54).

Plaintiff thereafter took an appeal to the United States Court of Appeals for the Federal Circuit. The Federal Circuit affirmed the trial court's judgment against Plaintiff and held that the claims were anticipated under 35 U.S.C. 102(b) over **TEXCEN**. (Exhibit 55). On the experimental use issue, the Federal

Circuit affirmed the trial court's "exercising its discretion not to consider Minton's new argument." *Id.*, at 1379. The Federal Circuit held that "[t]he experimental use doctrine has long been a fixture of patent law," that there was no "justification for his tardiness in raising the issue," and that "the district court acted well within its discretion when it declined to entertain Minton's new argument." *Id.* at 1379-80.

On August 25, 2004, Plaintiff timely filed this malpractice action. (Exhibit 56).

## II. EVIDENCE IN SUPPORT OF PLAINTIFF'S CLAIMS

Evidence in support of Plaintiff's claims for malpractice in the present case, including the fact that Plaintiff was damaged by Defendants' negligence, is listed below:

| <u>Description</u>                                                                                                               | <u>Exhibit No.</u> |
|----------------------------------------------------------------------------------------------------------------------------------|--------------------|
| United States Patent No. 6,014,643 entitled "Interactive Securities Trading System," issued to Vernon F. Minton January 11, 2000 | 1                  |
| Preliminary Prospectus, Texas International Stock Exchange, Inc. dated April 1993                                                | 2                  |
| Letter from James E. Wren of Williams Squire & Wren LLP to Vernon F. Minton dated April 28, 2000                                 | 3                  |

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|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| Texas Computer Network, Inc. –<br>Inventory of Relative Patent<br>Documents – Application of<br>Vernon F. Minton dated May 14, 1999                                            | 4  |
| Subpoena in a Civil Case to R.M.<br>Stark & Co. dated February 21, 2001                                                                                                        | 5  |
| Airborne Express airbills to Law<br>Office of Jerry W. Gunn and Akin,<br>Gump, Straus, Hauer & Feld<br>dated March 2, 2001                                                     | 6  |
| Letter from Vernon F. Minton to<br>Jerry W. Gunn (actually sent to<br>James E. Wren) including jury<br>instructions on experimental use,<br>dated January 29, 2002             | 7  |
| IDT long distance bill dated February<br>27, 2002 to Vernon Minton showing<br>January 29, 2002 telephone call to<br>fax number (254-741-6300) of<br>Williams Squire & Wren LLP | 8  |
| Handwritten note from Vernon dated<br>February 7, 2002 stating “please<br>consider this defense” and attaching<br>jury instructions on experimental use                        | 9  |
| Letter from Gary L. Stark to Vernon<br>F. Minton dated February 28, 1995                                                                                                       | 10 |
| Handwritten notes from Gary Stark<br>to Vernon Minton dated 3-6-95<br>re: Suggested Changes                                                                                    | 11 |
| Agreement of Lease between TISE and<br>R.M. Stark & Co. dated March 8, 1995                                                                                                    | 12 |



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| Unused                                                                                                                                              | 13 |
| Unused                                                                                                                                              | 14 |
| Letter from Gary L. Stark to Vernon F. Minton dated August 10, 1995<br>re: Sale of TEXCEN unit to<br>Long Distance Services                         | 15 |
| Letter from David E. Paulukaitis,<br>Assistant Director of NASD, District 7<br>to Mr. Gary Stark dated December 19,<br>1995                         | 16 |
| Photocopies of computer disks<br>dated 1-14-94 to May 13, 1999                                                                                      | 17 |
| Letter from Vernon F. Minton to<br>Ken Canton dated February 1, 1996<br>re: "plan to test our equipment . . .<br>on line"                           | 18 |
| Agreement between Texas<br>Computer Network, Inc. and R.M.<br>Stark & Co. dated August 14, 1996                                                     | 19 |
| Letter from Wayne Secore, Esq. to<br>Richard E. Pullano, Esq. dated<br>September 26, 1996 advising of change<br>of TISE name to TCN on June 3, 1996 | 20 |
| R.M. Stark Interactive Brokerage<br>Services memorandum dated May 2,<br>1997 re: "R.M. Stark Browser"                                               | 21 |
| R.M. Stark & Co. memorandum<br>dated July 17, 1997<br>re: RMST Interactive Update                                                                   | 22 |

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| Emails between R.M. Stark & Co. team and TISE team from February 18, 1998 to February 20, 1999 regarding testing and modifications to TEXTCEN (selected ones are Exhibit. 24)                      | 23 |
| Selected emails between R.M. Stark & Co. team and TISE (Vernon F. Minton team) from February 18, 1998 to February 28, 1999 regarding testing and modifications to TEXTCEN (full set is Exhibit 23) | 24 |
| Email from Gary L. Stark to Vernon F. Minton dated February 2, 1999                                                                                                                                | 25 |
| Texas Computer Network, Inc. list re: Inventory of Relative Patent Documents – Application of Vernon F. Minton dated May 14, 1999 listing computer disks                                           | 26 |
| List of computer files on disks dated 1-14-94 to May 13, 1999                                                                                                                                      | 27 |
| Diary of Richard Dickerson logging telephone calls regarding development of TEXTCEN, including calls between Gary L. Stark and Vernon F. Minton, between March 8, 1995 and September 8, 1995.      | 28 |
| TEXTCEN Software Assistance Guides (various) – first few pages of each                                                                                                                             | 29 |
| Photographs of TEXTCEN back end host computers in locked “cage” in Vernon F. Minton’s garage in Fort Worth, Texas                                                                                  | 30 |

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| Expert Report of Lance E. Gunderson<br>dated January 14, 2002                                               | 31  |
| Handwritten notes by Ellen Adler of<br>Interview of Gary L. Stark by NASD<br>attorney dated May 31, 2001    | 32a |
| Typed notes by Ellen Adler of<br>Interview of Gary L. Stark by<br>NASD attorney dated May 31, 2001          | 32b |
| Deposition of Vernon F. Minton<br>(in Underlying Case) Vol. 3, dated<br>February 6, 2001 (pages 1 to 257)   | 33a |
| Deposition of Vernon F. Minton<br>(in Underlying Case) Vol. 1, dated<br>February 7, 2001 (pages 258 to 531) | 33b |
| Deposition of Vernon F. Minton<br>(in Underlying Case) Vol. 2, dated<br>February 8, 2001 (pages 532 to 758) | 33c |
| Deposition of Vernon F. Minton<br>(Malpractice Case) Vol. 1, dated<br>March 1, 2001 (pages 1 to 276)        | 34a |
| Deposition of Vernon F. Minton<br>(Malpractice Case) Vol. 2, dated<br>March 2, 2001 (pages 282 to 453)      | 34b |
| Affidavit of Vernon F. Minton<br>dated February 19, 2002                                                    | 35  |
| Affidavit of Vernon F. Minton<br>dated September 6, 2005                                                    | 36  |
| Affidavit of Richard Dickerson<br>dated September 6, 2005                                                   | 37  |
| Affidavit of Theodore F. Shiells<br>dated September 6, 2005                                                 | 38  |

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|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| Affidavit of Ellen Adler dated September 6, 2005                                                                                                                                                              | 39 |
| Affidavit of Gary Stark dated September 6, 2005                                                                                                                                                               | 40 |
| Definition of "Debug" from Dictionary.com                                                                                                                                                                     | 41 |
| Definition of "Beta Test" from Dictionary.com                                                                                                                                                                 | 42 |
| Definition of "BASIC" computer language from Dictionary.com                                                                                                                                                   | 43 |
| Plaintiff's Original Complaint in <i>Minton v. NASD et al.</i>                                                                                                                                                | 44 |
| Plaintiff's Second Amended Complaint in <i>Minton v. NASD et al.</i>                                                                                                                                          | 45 |
| Defendants' Motion for Summary Judgment That U.S. Patent No. 6,014,643 Is Invalid Under The "On Sale" Bar Provision of 35 U.S.C. § 102 (b), dated July 18, 2001                                               | 46 |
| Plaintiff's Opposition to Defendants' Motion for Summary Judgment That U.S. Patent No. 6,014,643 Is Invalid Under The "On Sale" Bar Provision of 35 U.S.C. § 102 (b) [and Cross-Motion], dated August 7, 2001 | 47 |
| Order from Judge Wendell C. Radford, U.S.M.J. E.D.Tex. ordering supplemental submissions concerning the on-sale bar, dated September 18, 2001                                                                 | 48 |

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|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| Plaintiff's Surreply Regarding Defendants' Motion for Summary Judgment That U.S. Patent No. 6,014,643 Is Invalid Under The "On Sale" Bar Provision of 35 U.S.C. § 102 (b), dated September 19, 2001 | 49 |
| Plaintiff's Brief and Evidentiary Submission in Response to the Court's September 18, 2001 Order Concerning the On-Sale Bar Under 35 U.S.C. § 102(b), dated October 23, 2001                        | 50 |
| Plaintiff's Supplementation of the Record In Response to Defendants' Summary Judgment Motion, dated January 8, 2002                                                                                 | 51 |
| Memorandum Opinion (granting defendants' motion for summary judgment), dated February 1, 2002                                                                                                       | 52 |
| Plaintiff's Motion for Reconsideration, dated February 20, 2002                                                                                                                                     | 53 |
| Order (denying motion for reconsideration without considering merits of experimental use), dated July 15, 2002                                                                                      | 54 |
| <i>Minton v. National Ass'n of Securities Dealers</i> , 336 F.3d 1373 (Fed.Cir. 2003)                                                                                                               | 55 |
| Plaintiff's Original Petition in Case No. 048 207288 04                                                                                                                                             | 56 |
| <i>City of Elizabeth v. Am. Nicholson Pavement Co.</i> , 97 U.S. 126 (1887)                                                                                                                         | 57 |
| <i>Pfaff v. Wells Electronics, Inc.</i> , 525 U.S. 55 (1998)                                                                                                                                        | 58 |

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|-------------------------------------------------------------------------------------------------|----|
| <i>EZ Dock, Inc. v. Schafer Systems, Inc.</i> ,<br>276 F.3d 1347 (Fed.Cir. 2002)                | 59 |
| <i>Lisle v. A.J. Manufacturing Company</i> ,<br>398 F.3d 1306 (Fed.Cir. 2005)                   | 60 |
| <i>Manville Sales Corp. v. Paramount<br/>Sys., Inc.</i> , 917 F.2d 544 (Fed.Cir. 1990)          | 61 |
| <i>Monon Corporation v. Stoughton Trailers,<br/>Inc.</i> , 239 F.3d 1253 (Fed.Cir. 2001)        | 62 |
| <i>Articulate Systems, Inc. v. Apple<br/>Computer, Inc.</i> ,<br>53 F.Supp.2d 62 (D.Mass. 1999) | 63 |

### III. ARGUMENT AND AUTHORITIES

#### A. Standards for Summary Judgment Under Texas Rules of Civil Procedure 166a(c) and 166a(i).

Under Texas Rule of Civil Procedure 166(c), grant of summary judgment is not proper unless there are no genuine issues of material facts as to the essential elements of Plaintiff's claims. *See e.g.*, Tex. R. Civ. P. 166(c); *Fort Worth Osteopathic Hosp. v. Reese*, 148 S.W.3d 94, 99 (Tex. 2004). Summary judgment must be denied if the nonmovant presents evidence creating a fact issue. *Id.*

Under Texas Rule of Civil 166a(i), a party may move for summary judgment under a "no evidence" motion if, after adequate time for discovery, there is no evidence of one or more essential elements of a claim on which the nonmovant would have the burden of proof at trial.



Under either section, “[a] genuine issue of material fact exists if the nonmovant produces more than a scintilla of evidence establishing the existence of the challenged element.” *Id.*

On motion for summary judgment “[t]he evidence of the nonmovant is to be believed, and all justifiable inferences are to be drawn in his favor.” *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242 (1986). *See, also, United States v. Diebold, Inc.*, 369 U.S. 654 (1962) (“On summary judgment the inferences to be drawn from the underlying facts contained in [affidavits, exhibits, and depositions] must be viewed in the light most favorable to the party opposing the motion”); *Palumbo v. Don-Joy Co.*, 762 F.2d 969, 973 (Fed.Cir. 1985) (the courts should “resolve all doubt over factual issues in favor of the party opposing summary judgment”).

**B. Defendants’ Burden, As Patent Challenger, To Prove All Facts Supporting Invalidity by “Clear and Convincing Evidence”**

Defendants’ motion for summary judgment is directed to the “case within a case” of this legal malpractice case. Defendants rest their motion on the contention that, even if they were negligent in failing to timely raise the experimental use exception to the on-sale bar, they caused no harm because Minton would not have succeeded with an experimental use argument anyway.

A patent is presumed valid by statute. 35 U.S.C. § 282. A patent challenger asserting invalidity has the burden of proving all facts necessary to establish invalidity by the heightened evidentiary standard of clear and convincing evidence. *See, Lisle v. A.J. Manufacturing Company*, 398 F.3d 1306, 1316 (Fed.Cir. 2005). Since, in this case, Defendants' have switched sides to place themselves in the position of their former adversaries, the National Association of Securities Dealers, Inc. (NASD) and The NASDAQ Stock Market, Inc. (NASDAQ), they bear the same burden of proof borne by NASD and NASDAQ in the Underlying Case with respect to proving patent invalidity; clear and convincing proof of all necessary facts.

As patent challenger asserting invalidity under the "on sale" bar of 35 U.S.C. § 102(b), Defendants must prove two facts by clear and convincing evidence: (1) that the accused transaction was "ready for patenting" on the critical date (in this case, June 28, 1995) and (2) that the accused transaction constituted a sale or public use that "is commercial rather than experimental in character." *Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55, 67 (1998). It is well settled that a sale that is primarily for experimental purposes, as opposed to commercial exploitation, does not raise an on sale bar. *See, Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 550 (Fed.Cir. 1990); *Lisle*, 398

F.2d at 1313 (“Experimental use negates patent invalidity for alleged public use.”).<sup>19</sup>

When a patent challenger alleges invalidity under § 102(b) based upon an alleged pre-critical date public use or commercial sale, a patent owner can introduce evidence showing that the public use or sale was primarily for purposes of experimentation to neutralize the challenger’s attempt to show invalidity by clear and convincing evidence. *Lisle*, 398 F.2d at 1316. As the Federal Circuit made clear in *Lisle*, this “burden of production” does *not* place on the patent owner a burden comparable to the clear and convincing evidence required to invalidate a patent. *Id.* Rather, the patentee must simply produce sufficient rebuttal evidence to prevent the party challenging the patent’s validity from meeting its burden of proving by clear and convincing evidence that the invention was in public use. *Id.* The burden of proving all facts supporting invalidity “does not shift at any time to the patent owner.” *Id.*

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<sup>19</sup> For purposes of the present motion, Plaintiff does not challenge the “ready for patenting” prong. Plaintiff strenuously denies that the accused transaction, the Agreement of Lease dated March 8, 1995 between Texas International Stock Exchange, Inc. (TISE) and R.M. Stark & Co. (RMST) (the “1995 Agreement”) constituted a sale or public use that was “commercial rather than experimental in character.” See, *Pfaff*, 525 U.S. at 67.

### C. Experimental Use Is A Question of Fact, Not Law.

Defendants' motion contends that whether an accused transaction falls within the experimental use exception is a question of law. That is not correct. Cases from 1996 (the year of the cases cited by Defendants) sometimes stated that proposition. Although that history is interesting,<sup>20</sup> experimental use has clearly been a fact question since November 10, 1998, when the United States Supreme Court discredited the Federal Circuit's former "on sale" test that had balanced the totality of circumstances against policies underlying 35 U.S.C. § 102(b), in favor of the Supreme Court's new two part test referenced above. *Pfaff*, 525 U.S. at 66-68.

In view of the Supreme Court's ruling in *Pfaff*, treatment of the experimental character of an accused transaction as a question of law rather than one of fact is untenable and, since *Pfaff*, the Federal Circuit has properly treated it a question of fact. See, *Weatherchem Corp. v. J.L. Clark, Inc.*, 163 F.3d 1326, 1333 (Fed.Cir. 1998) ("[T]his court now 'follows the Supreme Court's two-part test without balancing various policies according to the totality of the circumstances.'"); *EZ Dock Inc. v. Schafer Systems, Inc.*, 276 F.3d 1347, 1353-4 (Fed.Cir. 2002) (reversing summary

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<sup>20</sup> That issue bitterly divided the Federal Circuit in that time frame. See, *Lough v. Brunswick Corporation*, 103 F.3d 1517 (1997) (denial of rehearing *en banc* on the experimental fact/law issue, with five separate opinions, concurrences and dissents).

judgment where patent owner “presented adequate evidence for a reasonable jury to find satisfied the factual predicate for experimental use”); *Lisle*, 398 F.2d at 1316-17 (affirming jury’s verdict where “reasonable jury could have found that [patent challenger’s] *prima facie* case of public use was rebutted” by patent owner’s evidence of experimental use).

Plaintiff must ultimately prove its malpractice case against Defendants, including causation of Plaintiff’s damages, by a preponderance of the evidence. However, since Defendants must prove the patent invalid by the same clear and convincing standard applied to any patent challenger, to prevail on this motion, Minton need only present “more than a scintilla” of evidence supporting the factual finding of the experimental character of the 1995 agreement, sufficient to rebut *Defendants’* burden (as patent challengers) of proving by *clear and convincing proof* that accused transaction was primarily commercial rather than experimental. The evidence of record on this motion more than meets that standard.

**D. Abundant Objective and Corroborated Evidence – Ignored by Defendants in the Underlying Case and on This Motion – Supports the Experimental Purpose of the 1995 Agreement**

In determining whether a particular use is primarily experimental versus primarily commercial, the Federal Circuit has identified a number of objective



evidentiary facts or factors to be weighed by the trier of fact. *See, Seal-Flex, Inc. v. Athletic Track and Court Construction*, 98 F.3d 1318, 1323 (Fed.Cir. 1996). These factors include: (1) The necessity for public testing, (2) the amount of control over the experiment retained by the inventor, (3) the nature of the invention, (4) the length of the test period, (5) whether payment was made, (6) whether there was a secrecy obligation, (7) whether records of the experiment were kept, (8) who conducted the experiment, (9) the degree of commercial exploitation during testing, (10) does the invention reasonably require evaluation under actual conditions of use, (11) was testing systematically performed, (12) did the inventor continually monitor the invention during testing, and (13) the nature of contacts made with potential customers. *Id.*

These are evidentiary factors to be *weighed* by the finder of fact – not “elements” of experimental use; some factors may not be applicable in a given case and a Plaintiff need not prove all of these factors to prevail. *See, EZ Dock*, 276 F.3d at 1358 (Lynn, J., concurring) (concurring in reversal of summary judgment because sufficient evidence of experimental use existed for determination by jury, despite payment for the device of about 75% of the final retail price, lack of a confidentiality obligation, and an absence of evidence showing control over the experimentation by the inventor).

Defendants acknowledge that the finding of experimental use rests on consideration of these evidentiary



factors. They fail, however, to consider virtually any of them.

To defeat Defendants' present motion for summary judgment, it is sufficient for Minton to present a genuine dispute as to *any* of these evidentiary factors. The facts of record support not just one, but all of these evidentiary factors.

### **1. The Necessity For Public Testing.**

#### **a. Evidence Supporting Necessity**

Evidence of a reasonable need for the testing is an objective fact tending to prove experimental purpose. *See, Allied Colloids, Inc. v. American Cyanamid Company*, 64 F.3d at 1570, 1576 (Fed.Cir. 1995) ("Whether future improvements were contemplated or necessary is indeed relevant, for experimental use is determined on all the evidence.") *See, also, Manville*, 917 F.2d at 551 (brief test of invention under modest conditions was insufficient to demonstrate its durability in its intended environment of severe wind and weather conditions, justifying need for public testing in its intended severe weather environment); *EZ Dock*, 276 F.3d at 1353 (reasonable need for testing at issue was demonstrated since floating docks, by their nature, must endure all kinds of weather and the public test location had more turbulent water conditions than the dock location where it had previously been tested by the inventor).

As the Federal Circuit stated in *Allied*,

The law recognizes an inventor's need to test the invention, to ascertain whether the work is complete or further changes should be made, and to show that the invention will work for its intended purpose. . . . [S]uch testing and development may encompass or even require disclosure to the public, without barring the inventor's access to the patent system. [Citations omitted]. That the testing leads to and is followed by commercial success does not convert the test activity into an invalidating public use. *The dispositive consideration is whether the inventor was in fact testing the invention.* As the [Supreme] Court wrote in *City of Elizabeth* [97 U.S. at 135] it is not necessary in such a case, that the machine should be put up and used only in the inventor's own shop or premises. He may have it put up and used in the premises of another, and the use may inure to the benefit of the owner of the establishment. Still, if used under the surveillance of the inventor, and for the purpose of enabling him to test the machine, and ascertain whether it will answer the purpose intended, and make such alterations and improvements as experiences demonstrates to be necessary, and it will still be a mere experimental use, and not a public use, within the meaning of the statute.' 97 U.S. at 135. This law endures, and has many times been reinforced.

*Allied Colloids*, 64 F.3d at 1576-77.

Here, abundant objective evidence shows Minton's need to use RMST (or another licensed broker) so Minton could complete development of TEXTCEN and test its performance under real-life conditions of actual use. At the time of the 1995 Agreement, only the front end of TEXTCEN (the part a customer would see)<sup>21</sup> had been tested in only a very limited environment; on *one computer* connected on the Local Area Network (LAN) at Minton's home in Fort Worth. (Exhibit 34a at p. 207, ln. 23 to p. 213, ln 5; Exhibit 34b at p. 444, lns. 9-23). The technology used for communication between computers on a LAN is not the same as the TCPIP (Transfer Control Protocol Internet Protocol) technology used for communication over the Internet (the necessary means of communication for the TEXTCEN system) nor are the conditions the same; a LAN being designed for a fixed location and not suitable for city to city communication. (Exhibit 34a at p. 209, ln. 5 to p. 211 ln. 3; p. 239, ln. 21 to p. 241 ln. 25).

The fact that successful operation of the TEXTCEN system using one computer on a LAN cannot assure successful operation using multiple computers communicating using TCPIP over the Internet was

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<sup>21</sup> The front end of TEXTCEN is like the AOL CD you receive in the mail. It is the user interface between the user and the back end of the network. (Exhibit 34a at p. 76, lns. 6-14). The front end is the part of the program where individuals open new accounts, place limit orders, submit orders for execution by the broker and interface with the network. (Exhibit 34a at p. 204, lns. 10-15).

objectively, and painfully, demonstrated by the failure of the first attempted demonstration of the TEXCEN system operating over the Internet, a demonstration test conducted by Minton and witnessed by Stark and employees of NASD, prior to the time of the 1995 Agreement. (Exhibit 34a at p. 252, ln 4 to p. 253, ln. 24). As Minton testified, that failure was caused by a "big bug," of undetermined origin at the time, which was not fixed by the time the March 1995 agreement. *Id.*<sup>22</sup>

After that failure, Stark demanded that Minton "make sure it works" before demonstrating it to NASD again. (Exhibit 34a at p. 253, lns. 16-24). The 1995 Agreement with RMST was then signed and Minton set up a protocol for the testing to be done with a team on each side (TISE and RMST, respectively). (Exhibit 34a at p. 255 lns. 2-11). To "make sure it worked," Minton worked 15 hours a day and more for several years "interfacing data, testing it, and [making] changes as indicated by all the revisions of the diskettes and the software assistance guides." (Exhibit 34a at p. 253, lns. 16-24; p. 255, lns. 2-11; Exhibit 33c at p. 616, ln. 18-22). Minton "continually tested it every day" going through "every facet, every line, every form." (Exhibit 34a at p. 270, ln. 24 to p. 271, ln. 21).

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<sup>22</sup> This failed test proved "belief that a program will work is not enough to make it work. (Exhibit 34a at 213, ln. 17-21) (Minton "believed" TCPIP would work).

Defendants vastly overstate the completeness of the TEXTCEN system at the time of the 1995 Agreement, grossly mischaracterizing it as “commercially” operational. The facts of record are flatly to the contrary. As of March 8, 1995, just the “basic things” of TEXTCEN worked, by which Minton meant the front end part *only*. (Exhibit 33b at p. 518, lns 6-12; Exhibit 34a at p. 103, ln. 5 to p. 104, ln. 1). Minton testified that “we had [the] program maybe working a day or two earlier, a month earlier [than November 1, 1995].”<sup>23</sup> (Exhibit 33b at p. 267, ln. 22 to p. 268, ln. 23; and p. 362, lns. 9-12.).

The “back end” servers of TEXTCEN, which served as the “brains” of the system, were not at all complete or tested.<sup>24</sup> (Exhibit 34a at p. 205, ln. 20 to p. 224, ln. 21; p. 229, ln. 13-18). The TEXTCEN front end cannot display meaningful data without the back end. (Exhibit 34b at p. 348, ln. 4 to p. 349, ln. 13). Only an untested “framework” of the back end was in place and whether it would work in its intended

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<sup>23</sup> A “month earlier than” November 1, 1995 would be October 1, 1995, well *after* the critical date of June 28, 1995.

<sup>24</sup> The back end of TEXTCEN [the “brains”] is the networking feature which allows individuals to negotiate with the trade desk. And the back end of the system provides the data for the displays on the front end. The back end of the system allows the confirmation of any execution that the broker may have filled. The back end provided data for making decisions in terms of news and prices. The back end provided a database for all the users in the systems and the security and the distribution of the data. (Exhibit 34a at p. 205, lns. 8-19).



environment was "highly doubtful." (Exhibit 34a at p. 205, ln. 20 to p. 206, ln. 10). The back had only been satisfactorily tested on a LAN, not its intended environment of operating over the Internet. (Exhibit 34b at p. 444, lns. 14-23). The back end had never been debugged and was not operable or functional. (Exhibit 34a at p. 205, ln. 20 to p. 207, ln. 3).

The incomplete nature of TEXTCEN as of March 8, 1995 is also confirmed by the Software Assistance Guide Ver. 4.0, provided to RMST at the time RMST was considering the lease. The Guide expressly cautioned that "development of TEXTCEN will be an ongoing process." (Exhibit 29, Page 1; Exhibit 34b at p. 347, lns 13-17). Furthermore, Page 3 of the Guide, in the section entitled, "Textcen's Present/Future Capabilities" lists a number of features as either present or "future." (Emphasis added.) All of this would put any reader (including Stark) on notice that TEXTCEN was incomplete and still under development.

Evidence of record demonstrates that Stark understood the incomplete nature of TEXTCEN. Notes taken by Ellen Adler, vice president of RMST, of Stark's statement during an interview Stark had with an NASD attorney on May 31, 2001 reflect that Stark understood when he "considered" the lease, the "system was not completely functional yet." (Exhibit 32a at p. 1 (handwritten) and 32b at p. 1 (typed version))<sup>25</sup>.

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<sup>25</sup> Exhibit 32b is a typed version of Exhibit 32a that was prepared by attorneys for Minton for the convenience of the  
(Continued on following page)



Those notes also reflect Stark's statements that: "system never worked properly," "GLS [Gary L. Stark] asked Plaintiff what needed to get system working right," "no reliability in transmission," "price never discussed @ 1st but knew lease would not work," "problem was internet transmission of order – then manual entry of order into 2nd system," "no cross-over (as exists today)," "unreliable transmission," "lease arrangement never implemented b/c [because] system didn't work," "lease never deemed in existence. No performance," "operational and regulatory q's >> I\$ Never assured it could work," "test software program betwn [between] RMST and [Marty] Brasse," "manual input of system greatest hurdle in 'best execution.'" <sup>26</sup> *Id.* at p. 1-2.

Defendants' argue that Minton's testimony that, subject to NASD approval, he was "ready to go" (Exhibit 33b at p. 518, ln. 6 to p. 519, ln 18) as supposed proof that TEXTCEN was commercially operational at the time of the 1995 Agreement, implying

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Court in reading Adler's notes. See, Affidavit of Theodore F. Shiells dated September 6, 2005 (Exhibit 41).

<sup>26</sup> Stark does not recall being interviewed by Defendants about substantive aspects of the case. If they had asked, Stark would have told them what he told the NASD attorney. (Exhibit 40).

After the NASD got these statements by Stark in the May 31, 2001 interview (which statements NASD obviously knew would support the experimental purpose of the lease of TEXTCEN to RMST and therefore negate the on sale bar) NASD chose not to take the deposition of RMST after all.

that obtaining approval was simply a legal matter having only to do with Minton [sic] loss of his broker's license, but which was devoid of the need to solve technical problems.<sup>27</sup> That is simply not so.

In his February 19, 2002 Affidavit (submitted by Defendants in the Underlying Case in connection with the Motion for Reconsideration), Minton attested: "It was necessary to enter into the lease agreement for the TEXTCEN software in order to test and evaluate the program because NASDAQ required testing before it would approve implementation for widespread customer use." (Exhibit 35 at p. Par 10). At his deposition in this case, Minton testified that, to obtain SEC approval, they "would have had to test the program to make sure it worked." (Exhibit 34a at p. 108, ln. 24 to p. 111, ln. 21). There is no inconsistency.

The foregoing testimony attesting to Minton's need to develop and test the TEXTCEN program in cooperation with a broker (such as RMST) to prove it worked is corroborated by a letter dated December 19, 1995 from David E. Paulukaitis, Assistant

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<sup>27</sup> Defendant's allegation of prior "misconduct" on Minton's part does not deserve a response. Plaintiff acknowledges that, fourteen years ago, he permanently lost his broker's license in an SEC administrative action. This fourteen-years-old administrative matter involved very complicated facts that are of no relevance to this case. Suffice it to say that Defendants were aware of this matter during the Underlying Case and it was apparently of no concern to them in representing Plaintiff at that time.

Director of NASD, District 7 to Mr. Gary Stark. In that letter, Mr. Paulukaitis pointed out the requirement for the Securities and Exchange Commission (SEC) to “review[ ]” the program, including at a minimum describing to them specific technical details such as “exactly how the system will function,” how “transactions will be processed,” etc. (Exhibit 16).

The previous demonstration of the TEXCEN program operating over the Internet, witnessed by NASD personnel, had failed. (Exhibit 34a at p. 252, ln 4 to p. 253, ln. 24). The cause of the “big bug” that caused the failure had not been determined at the time of the 1995 Agreement with RMST. *Id.* In view of the prior failure of the test for NASD employees, on March 8, 1995 (and for a considerable period of time thereafter while he attempted to perfect the program and find the solution to the “bugs”) Minton could not know the technical details of “how the program would function” in its intended environment, much less explain this operation to the satisfaction of the SEC and the NASD.

The Federal Circuit has recognized that, in some cases, ensuring that a new device meets existing legal requirements may itself be an important design parameter. *See, e.g., Monon Corporation v. Stoughton Trailers, Inc.*, 239 F.3d 1253, 1260 (Fed.Cir. 2001) (invention involved changing design of truck trailer to increase interior space while complying with governmental highway-use regulations as to external dimensions). This is especially applicable in the highly regulated securities industry, where meeting legal

requirements to the satisfaction of regulatory authorities is an inherent design requirement of any computer system to be used by the public in connection with trading.

To solve the problem that caused the failed demonstration, as well as ensure the reliability inherently required of a computer system used to facilitate trading securities, Minton needed to evaluate and test the program in its intended environment with multiple simultaneous users communicating over the Internet under real-life conditions of load. Only then could he describe "exactly how the system will function" to the NASD and the SEC and "make sure it works" as Stark had demanded. (Exhibit 34a at p. 252, ln 4 to p. 253, ln. 24). Minton's testimony, which is corroborated by other evidence of record, demonstrates that this could only be done by providing the TEXTCEN software to a licensed broker, i.e., RMST, who could then test and evaluate it under realistic conditions of use under "load," i.e., being used by customers, something Minton could not do. (Exhibit 16; Exhibit 35 at p. Par. 10; Exhibit 34a at p. 97, ln. 19 to p. 99, ln. 16, p. 202, ln. 18 to 204, ln. 9; p. 205, ln. 20 to p. 206, ln. 10, p. 244, lns. 14-25; Exhibit 34b at p. 318, ln. 19 to p. 319, ln. 21).

The foregoing objective and corroborated evidence demonstrates Minton's need to use RMST for evaluating and testing of TEXTCEN under load, so as to perfect the program to ensure reliability in its intended environment, as well as to secure approval from the NASD and the SEC.

**b. The Warranty Clause Supports a Finding of Experimental Purpose**

Defendants repeatedly refer to the warranty clause in the 1995 Agreement that states "TEXCEN will perform in a workmanlike manner" in an effort to show that TEXCEN was already commercially operational on March 8, 1995 or otherwise to attempt to show lack of an experimental character to the 1995 Agreement. (Exhibit 12, Par. 8). This effort is wholly misguided.

Contrary to Defendants' argument, warranty clauses and other "money-back" clauses in accused transactions can be relied upon as evidence *supporting* an inference of experimental purpose. *See, e.g., Seal Flex, Inc. v. Athletic Track and Court Construction*, 98 F.3d 1318, 1320 (Fed.Cir. 1996) (extended warranty offered to show "general uncertainty as to how the track would perform under conditions of use"); *Manville*, 917 F.2d at 547 (clause making payment for device conditional on "satisfactory performance" supported finding of experimental purpose). Since, on summary judgment, all justifiable inferences must be resolved in favor of the nonmovant, the warranty clause in the 1995 Agreement is a factor *supporting* a finding of experimental purpose. *See, Baker Oil Tools*, 828 F.2d at 1560 (summary judgment reversed as improper where district court accepted the movant's view of the probative value of certain documents as evidence of experimental purpose, rather than the nonmovant view of those documents).



The contrary inference Defendants' suggest – that the warranty clause shows TEXTCEN was ready for commercial use at the time of the lease – is not reasonable under the facts of this case. The parties knew TEXTCEN was in need of substantial further software development and not yet completely functional at the time of the 1995 Agreement. (Exhibits 10, 32a (handwritten) and 32b (typed)). The warranty clause speaks of performance in the *future* – that TEXTCEN “will” perform in a workmanlike manner – not its present ability to perform. (Exhibit 12, Par. 8). The Software Assistance Guide, Ver. 4.0 also spoke in terms of features and capabilities to be added in the “*future*.” (Exhibit 29 at p. 3) (Emphasis added). The Guide also expressly cautioned that “development of TEXTCEN will be an on-going process.” (Exhibit 29 at pp. 1, 3).

The warranty must also be read in light of Par. 7(B)(1) of the 1995 Agreement, which specifically gave RMST the right to terminate the agreement if TISE was not “operational” by September 1, 1995. (Exhibit 12, Par. 7(B)(1). Although this paragraph states that TISE had to be “operational,” it implied that TISE and/or TEXTCEN as programs had to be “operational,” since TISE as a company was already operational on that date. (Exhibit 34b at p. 446, ln. 25 to p. 447, ln. 17). The clause giving RMST termination rights if TISE was not operational by September 1, 1995 was expressly discussed with Stark prior to the signing of the lease. (Exhibit 11).



Defendants' suggestion that Par. 7(B) means only that TISE (as a *company*) had to be operational is not reasonable: Both parties knew that TISE (as a *company*) was already "operational" on March 8, 1995. (Exhibit 34b at p. 446, ln. 25 to p. 447, ln. 17). It was TISE's *network* (i.e., the back end or host computer system that was required to permit TEXCEN to do anything useful) that was not operational on that date. Stark's statements to the NASD attorney on May 31, 2001 that "lease arrangement never implemented b/c [because] system didn't work," "lease never deemed in existence. No performance" also support the fact that Stark understood that the 1995 Agreement was conditional on Minton achieving satisfactory operational performance, which was never achieved. (Exhibits 32a and 32b).

In view of the foregoing, a reasonable inference (if not the only justifiable inference) for a fact-finder is that the statement in the warranty that TEXCEN "will" perform in a workmanlike manner was made because it was *unknown* by Minton whether it would perform satisfactorily under actual conditions of use and that the warranty was not even intended to be effective until at least the September 1, 1995 date agreed to for achieving satisfactory performance (which date is after the critical date). *See, Seal Flex*, 98 F.3d at 1320. *See, also, Manville*, 917 F.2d at 547 (Fed.Cir. 1990) (payment conditioned on "satisfactory performance" supported experimental purpose). Since, on this motion for summary judgment, all justifiable inferences must be resolved in *Minton's* favor, the

warranty clause is an objective fact *supporting* a finding of experimental purpose, not the other way around.

All of the foregoing evidence shows Minton's need for securing the participation of RMST to continue development and testing of the TEXCEN system. This is an objective fact supporting a finding of experimental purpose.

## **2. The Amount Of Control Over The Experiment Retained By The Inventor.**

Evidence that the inventor exercised control over the experiment, and the amount of that control, is an objective fact tending to prove experimental purpose. *See, Manville*, 917 F.2d at 550 (control shown by retention of ownership of device provided to customer under conditional sale and by confidentiality notice). By contrast, lack of control has been relied upon, in conjunction with other facts, to support a finding of no experimental purpose. *See, e.g., U.S. Environmental Products Inc. v. Westall et al*, 911 F.2d 713, 717-18 (Fed.Cir. 1990) (finding of no experimental use affirmed where inventor exercised no control, kept no records and, had no secrecy agreement and also promoted invention to third parties during alleged experimental period); *Electromotive Div. of General Motors, Inc. v. Transportation Systems Div. of General Elec. Co.*, \_\_\_ F.3d \_\_\_ 2005 W. 1774430 at 9 (Fed.Cir. July 28, 2005) (control "especially important" or

“critical;” summary judgment granted where there was no showing of any control over the field tests, no monitoring of the tests and no attempt to obtain feedback from the users). *But see, EZ Dock*, 276 F.3d at 1358 (Lynn, J., concurring) (concurring in reversal of summary judgment of invalidity despite an absence of evidence showing control over the experimentation by the inventor).

Defendants make *no* challenge to Minton’s control over the experimentation conducted in conjunction with RMST and they cannot: The facts show Minton’s control over TEXCEN and the testing of it during the testing and development period was virtually complete:

Minton retained control by *retaining title* to TEXCEN. (Par. 5 of the 1995 Agreement to RMST, entitled “TITLE,” gave RMST “the exclusive right to use TEXCEN only. *Title to TEXCEN shall at all times remain in TISE.*” (Exhibit 12 at Par. 5) (Emphasis added). Retention of title to the device under test has been held to support a finding of control. *See, Manville*, 917 F.2d at p. 550.

Minton’s [sic] also maintained control by keeping the “brains” of the TEXCEN system – the back end host computers or servers that were required for the TEXCEN front end to do anything useful – at his home in Fort Worth, physically locked in a cage in his garage. (Exhibit 34a at p. 112, lns. 6-13; p. 225, ln. 3 to p. 226, ln. 1). The back end servers were *never* intended to be provided to RMST in the 1995

Agreement and never left Minton's possession. (Exhibit 30, Exhibit 34a at p. 269, ln. 25 to p. 270, ln. 16). With the "back end" host computers locked in his garage, Minton ensured that he or a member of his team would be an essential part of, and in control of, all testing of the system.

Minton was in almost daily communication with RMST during the testing period. (Exhibit 34a at p. 270, ln. 24 to p. 271, ln. 21; Exhibit 34b at p. 319, ln. 25 to p. 320, ln. 10). Minton set up an interface between employees of his company and RMST who worked on both sides of the telephone, to go through "every facet, every line, every form," to "make it work." (Exhibit 34a at p. 270, ln. 24 to p. 271, ln. 21). Minton and his team continually tested TEXCEN every day. *Id.* The constant involvement of and control by Minton and his team is confirmed by Richard Dickerson's diary logging many telephone calls from Stark to Minton during the period (Exhibit 28) and by the contemporaneous emails between Minton's testing team and the RMST testing team generated during the period testing was conducted. (Exhibits 23 and 24).

As the emails concerning the tests demonstrate, Minton was intimately involved in the communications with RMST during the testing, and in the examination and correction of problems with the software every step of the way. Either Minton or the beta tester on Minton's team, Martin Brasse ("Brasse"), acted as one side of every "practice" trade conducted

with RMST. *Id.* Minton was copied on many of the emails. *Id.*

The foregoing objective facts showing Minton's virtually complete control of the experimentation, a "critical" fact, is compelling proof of experimental purpose.

### **3. The Nature Of The Invention.**

The TEXTCEN front end and the back end host computer it communicated with were complicated software products designed to be relied upon for transactions involving real money in the securities industry when they were complete and tested. (Exhibit 34a, p. 223 at ln. 7 to p. 224 at ln. 23; p. 272 at ln. 25 to p. 274, ln. 7). Such software products require severe, critical testing under actual conditions of use. (Exhibit 34a at p. 205, ln. 20 to p. 206 ln. 10). Minton had already found out the hard way how complicated TEXTCEN was and how important it was to test it when it failed to function properly when he attempted to demonstrate it to Stark and the NASD prior to the time the 1995 Agreement was signed. (Exhibit 34a at p. 252, ln 4 to p. 253, ln. 24).

It is beyond question that critical reliability is a feature inherently required of a computer system designed to facilitate trading in securities for money. The contemporaneous emails between Minton and his beta tester, Martin Brasse, and RMST demonstrate that the testing was directed to perfecting and improving the reliability of the TEXTCEN system.



operating in its intended environment over the Internet. (Exhibit 23). Accordingly, this factor further supports experimental purpose.

#### 4. The Length Of The Test Period.

The length of the test period has also been cited as a relevant fact. *Grain Processing Corporation v. American Maize-Products Company*, 840 F.2d 902, 906 (Fed.Cir. 1988) (test period was "relatively short"). See, also, *Manville*, 917 F.2d at p. 548 (tested for one winter to determine the new design's durability under wind, cold and corrosive atmospheric conditions); *Monon Corp.*, 239 F.3d at 1261 (experimental use found where new design for a trailer used for one year on highways).

Here, the period between the March 8, 1995 date the lease was entered into and the June 28, 1995 critical date is less than three months. As demonstrated by the termination clause of the 1995 Agreement, 7(B)(1), the parties to the 1995 Agreement contemplated that it might take until September 1, 1995 (almost six months) for Minton to get the system operational. In view of this, the period between the March 8, 1995 date the agreement was entered into and the June 28, 1995 critical date is a more than reasonable period in which to conduct the necessary further development and testing. This is also demonstrated by the emails from Stark to Minton dated February 2, 1999, showing that the development and testing directed to trying to make TEXCEN reliable



in its intended environment was still ongoing for *many years* after the original September 1, 1995 date by which the parties hoped it would be complete, and even then was still not fully successful. (Exhibit 23).

### 5. Whether Payment Was Made.

Defendants argue that the 1995 Agreement, which provided a term under which Minton's company would receive a "rent" of 30% of gross revenues or \$2000 per month, whichever was *less*, and Minton's testimony the [sic] he "hoped" RMST would pay his company a licensing fee under the 1995 Agreement is "conclusive" of commercial purpose. (Exhibit 33a at p. 72, ln. 13 to p. 73, ln.15). That is just not so under applicable law.

The fact that a patent owner or his company may receive a financial benefit from the public's use of the device during the period of experimentation is, of course, a factor for the fact-finder to weigh, but this has *never* been considered "conclusive" of commercial purpose, either in the Supreme Court of [sic] the Federal Circuit. *See, City of Elizabeth v. Am. Nicholson Pavement Co.*, 97 U.S. 126, 135 (1887) (affirming finding of experimental purpose despite fact that the inventor's company, of which he was a shareholder, received tolls from use of the inventive paving: "Whilst the supposed machine is in such experimental use, the public may be incidentally deriving a benefit from it . . . and still it will not be in public use, within the meaning of the law."). *See, also, Baker Oil*

*Tools, v. Geo Vann, Inc.*, 828 F.2d 1558, 1564 (Fed.Cir. 1987) (“The circumstances of payment, it is well established, are a factor to be weighed, but payment does not per se make a section 102(b) [on sale] bar.”); *Manville*, 917 F.2d at 550 (finding of experimental purpose despite the fact that Manville “eventually received compensation for the iris arm delivered in fulfillment of its original contract with Wyoming”); *Monon Corporation v. Stoughton Trailers, Inc.*, 239 F.3d 1253, 1260 (Fed.Cir. 2001) (“fact that a company paid for the use of the patentee’s device is not dispositive”); *EZ Dock*, 276 F.3d at 1349 (summary judgment of invalidity reversed on basis of substantial evidence of experimental use despite evidence that patent owner sold the device for approximately 75% of its later-determined price); *Crystal Semiconductor Corp. v. Tritech Microelectronics Int’l, Inc.*, 246 F.3d 1336, 1332-2 [sic] (Fed.Cir. 2001) (jury deserved to weigh evidence characterizing the accused transaction as “commercial exploitation” and accounting it as “revenue” against evidence that the shipment was an engineering sample of no value that was shipped to the customer for confidential testing for which the customer was never charged).

It is not denied that the 1995 Agreement includes a nominal payment term that could provide between zero up to a maximum of \$2000 per month to Minton’s company, which is a non-dispositive fact to be considered by the jury. But Minton’s testimony that he expected his company would receive a “fee” or “revenue” if TEXCEN was eventually used by RMST’s

customers, so heavily relied upon by Defendants, adds nothing to what the 1995 Agreement already says. Such cumulative testimony is hardly “compelling” and is certainly *not* “conclusive” under applicable law.

Defendants contend that Minton’s testimony to the effect that he expected that, under the 1995 Agreement, RMST would allow his customers to use TEXCEN “commercially” is either contradictory of Minton’s current testimony or “conclusive” on the question of experimental use. It is neither.

Both the Supreme Court and the Federal Circuit have recognized that when the experimentation is being conducted, the public may very well derive benefit from using the invention without departing from the experimental purpose and that such does not detract from the experimental character of the transaction. *See, e.g., Elizabeth*, 97 U.S. at 135; *Monon Corp.*, 239 F.3d 1256 (trailer used in actual, normal use in customer’s commercial truck fleet for one year found an experimental sale). It is also an “error of law” to reject evidence showing that tests at issue had an experimental purpose simply because the tests were “commercially motivated.” *Allied Colloids*, 64 F.3d at 1575 (citing *Manville*, 917 F.2d at 551).

Furthermore, the fact that the 1995 Agreement (Exhibit 12) gave RMST the exclusive right to provide the TEXCEN front end software for his customers’ use is irrelevant, since that is no different from giving

RMST an exclusive right to market a product. The Federal Circuit has held that an "exclusive right to market the invention" does not constitute an on-sale bar. *Mas-Hamilton Group v. LaGard, Inc.*, 156 F.3d 1206, 1217 (Fed.Cir. 1998). In any event, RMST *never* provided TEXCEN to his customers for their use, "commercial" or otherwise.

Furthermore, as Minton testified in both his February 19, 2002 affidavit and at his deposition in this case, since he was not a broker himself, he specifically *needed* a broker such as RMST to provide the software to customers so that the program could be adequately tested "under load." (Exhibit 35 at p. Par. 10) ("NASDAQ required testing before it would approve implementation for widespread customer use."). Minton testified RMST never implemented the trading program because of regulations. (Exhibit 33a at p. 76, lns. 4-17). Minton has presented ample testimony and objective evidence demonstrating the genuineness of his need to use RMST for testing, for both technical as well as legal reasons. There is no contradiction at all.

Defendants argue that a November 1, 1995 Unanimous Consent to Director Action ratifying the Agreement of Lease dated March 8, 1995 and stating that "R.M. Stark & Co. Inc. agrees to lease the Company's software program ("TEXCEN") for the purpose of executing stock trades and other business" constitutes supposedly "overwhelming" proof of commercial purpose. It does not.

Since the date of this Consent is *after* the critical date of June 28, 1995, it is irrelevant. Even if considered, the cited statement in the Consent adds nothing to 1995 Agreement itself and is not inconsistent with Minton's well-corroborated testimony that it was necessary to use a broker to test the TEXTCEN system under real-life conditions "under load." Under such real-life conditions of load, a broker would be expected to execute the trades that the customers ordered.

Accordingly, the fact that Minton expected that, under the 1995 Agreement, members of the public could (theoretically) eventually use the TEXTCEN software commercially during the testing simply comports with Minton's well-supported need to conduct testing under load, is not in conflict with his current testimony and is entirely in accord with the law. Defendants' arguments in this regard do nothing to advance their case against experimental use.

Tellingly, Defendants fail to acknowledge in their brief that the circumstances of payment (or lack thereof) can *support* experimental purpose as well as detract from it. For example, a payment term that that is conditional on "satisfactory operation" *supports* a finding of experimental purpose, even if it is ultimately paid. *See, Manville*, 917 F.2d at 547-8. Payment at a price less than the later-determined value of the device or method is also a fact *supporting* experimental purpose. *EZ Dock*, 276 F.3d at 1349, 1353-4 (floating dock sold at 75% of later-determined price held experimental); *Monon Corp.*, 239 F.3d at



1260 (trailer sold for cost of construction held experimental). Experimental purpose is also shown by evidence that, although a payment term was recited in the accused transaction, no payment was ever actually made. *Isogon Corporation v. Amdahl Corporation*, 47 F.Supp.2d 415, 419 (S.D.N.Y. 1998) (fact that \$3,000 recited in contract was never actually paid bolsters conclusion that transaction was not a commercial sale). *See, also, Monon Corp.*, 239 F.3d at 1260-1 (refunding of purchase money for return of trailer after test period supported finding of experimental purpose).

In the present case, the circumstances regarding the “rent” term strongly support an inference of experimental purpose. Par. 3 of the 1995 Agreement recited that RMST would pay Minton’s company 30% of revenues received from use of TEXCEN by RMST’s customer, up to \$2000 per month, whichever was *less*. (Exhibit 12 at p. Par. 3). The parties knew at the time of the 1995 Agreement that “the development of TEXCEN [was to be] an ongoing process,” that it had never been successfully tested over the Internet (its intended environment), and that it was not yet completely functional. (Exhibit 29 at p. 1; Exhibit 34b at p. 347, lns. 13-17; Exhibit 32a at p. 1 (handwritten); Exhibit 32b at p. 1 (typed)).<sup>28</sup> Thus, both parties knew

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<sup>28</sup> The 1995 Agreement also expressly limited RMST to use of TEXCEN for legal purposes only. (Exhibit 12 at Pars. 4 and 6). These clauses precluded RMST from providing TEXCEN to  
(Continued on following page)



that commercial use of TEXCEN was impossible at the time of the lease and may not be possible (if ever) for many months to come.

Minton's right to receive any payment at all was also conditioned on the TISE network becoming "operational" on a "commercially reasonable basis" by September 1, 1995, as required by Par. 7(B)(1), lest RMST terminate the agreement. This is analogous to the circumstances in *Manville*, where payment conditioned on "satisfactory operation" was found to support a finding of experimental purpose. *See, Manville*, 917 F.2d at 547.

Furthermore, the \$2000 per month *maximum* that Minton's company could theoretically receive under the 1995 Agreement for use of TEXCEN by RMST's customers (if such ever became technically and legally possible) was a well-below-market price, which is a fact tending to show experimental purpose. *EZ Dock*, 276 F.3d at 1349, 1353-4 (floating dock sold at 75% of later-determined price held experimental); *Monon Corp.*, 239 F.3d at 1260 (trailer sold for cost of construction held experimental). For comparison, in a later agreement entered into between TCN and RMST on August 14, 1996, which agreement replaced the 1995 Agreement between TISE and RMST, the payment term provided that TCN would receive \$2000 per month *unconditionally*, whether or not any

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its customers for *any* purpose until approved to do so, which never happened. (Exhibit 34a at 213; lns. 3-16; p. 249, lns. 1).

customers used TEXCEN, *plus* 39 cents (\$0.39) per minute for each subscriber, with *no* maximum.<sup>29</sup> (Exhibit 19).

As another comparison, the theoretical maximum of \$2000 per month that Minton's company was restricted to receiving under the 1995 Agreement is *vanishingly* small in comparison to the later-determined royalty value of the '643 patent, as determined by Lance Gunderson (Gunderson), the economic expert hired by *Defendants* in the Underlying Case. (Exhibit 31). Based upon NASDAQ's 1,102,277,147 trades over a period of 21 months and using the royalty rate of \$.08 to \$.12 per trade determined by Gunderson, the royalty value of the invention of the '643 patent would have yielded Minton between about 4.2 and 6.3 *million* dollars per month – over *two thousand times* the theoretical *maximum* of \$2,000 per month he was limited to under the 1995 Agreement. *Id.* at pp. 3, 15.

Furthermore, despite the recitation of a payment term in the 1995 Agreement, Minton never actually received any money. The *non-payment* of money recited in an accused transaction supports a finding of experimental purpose. *See, Isogon*, 47 F.Supp.2d at 419.

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<sup>29</sup> August 14, 1996 is *after* the critical date and *after* Minton had applied for the '643 patent.

In contrast to Minton, Stark's interest in participating in the project, despite the "high level of risk," was the "anticipated level of returns," providing he and RMST had "reasonable protections." (Exhibit 10). And the 1995 Agreement did provide plenty of "reasonable protections" for RMST: Under the 1995 Agreement, RMST did not need to pay Minton or TISE *anything* unless and until Minton succeeded in making the system "operational," RMST could terminate the agreement if Minton was not successful by September 1, 1995, RMST did not need to pay anything unless it actually received revenue from RMST's customers, and the *maximum* provided for in the Agreement was capped at \$2000 per month. (Exhibit 12, Pars. 3, 7(B)(1)). However, RMST's financial motivation for participating in Minton's testing project is irrelevant to the experimental use question. *Elizabeth*, 97 U.S. at 135. ("[U]se use [sic] may inure to the benefit of the owner of the establishment . . . and it will still be a mere experimental use, and not a public use, within the meaning of the statute.")

In view of foregoing authority, the objective facts that the revenue Minton's company could theoretically receive under the 1995 Agreement (1) was conditional on future satisfactory operation (2) was an amount well below the later-determined value of either the TEXCEN systems or the invention of the '643 patent and (3) in any event, was never actually paid, all objectively support a finding of experimental purpose.

Defendants' argument that Minton's testimony in the Underlying Case to the effect that his "plans" for

the business of his company, Texas Computer Network (TCN), were to lease the TEXCEN software to a broker dealer for "revenue" is "compelling" or "conclusive" proof of commercial purpose is far off the mark. (See, Exhibit 33a at p. 75, lns. 12-25). Of course, whether revenue is provided for in an agreement is not dispositive *as a matter of law* and Minton's testimony to the same effect can hardly be "conclusive."

Furthermore, TCN did not exist under that name until on June 3, 1996, when TISE changed its name to TCN.<sup>30</sup> (Exhibit 20 at p. 1). That date is well after the critical date. As pointed out above, on August 14, 1996, TCN entered into a new agreement with RMST, replacing the old agreement with TISE dated March 8, 1995. (Exhibit 19). The August 14, 1995 TCN/RMST agreement provided a different payment scheme that, among other differences, was no longer conditional on use of the system by customers or capped at a maximum of \$2000 a month. Whether TCN did or did not plan to "profit" or receive "revenue" from these much more favorable payment terms is, of course, irrelevant, since neither TCN nor its

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<sup>30</sup> After this particular testimony, the examining attorney confusingly flip-flopped in his questioning between TCN and the 1995 Agreement, but it is clear that, at this point in the transcript, the examining attorney was inquiring only about the TCN as a business, as distinguished from other matters generally. See, Exhibit 33a at 75, lns. 12-15. ("Q. "Mr. Minton, I'd just like to ask you a few questions about Texas Computer Network." "A. Yes, sir." "Q. What is the status of Texas Computer Network? . . .").

August 14, 1996 agreement with RMST existed prior to the critical date.

In any event, even after the August 14, 1996 agreement between TCN and RMST, the evidence demonstrates that TEXCEN was still not sufficiently reliable for commercial use and Minton continued the testing and development aimed at perfecting the operation of TEXCEN unabated for many years thereafter. (Exhibits 23-25). And Minton never received any money. (Exhibit 34b at p. 322, ln. 19 to p. 323, ln. 3). This further supports Minton's experimental purpose. *Isogon*, 47 F.Supp.2d at 419.

In view of the foregoing, the circumstances of payment (or, rather, the lack of payment) support a finding of experimental purpose.

#### **6. Whether There Was A Secrecy Obligation.**

The fact that an accused transaction includes a secrecy or confidentiality obligation on the part of the customer-tester has been relied upon as objective proof of experimental purpose. *See, e.g., Manville*, 917 F.2d at 547 (confidentiality clause supported finding of experimental purpose).

Here, the 1995 Agreement expressly *does* include a confidential clause. (Exhibit 12, Par. 10). This provides further objective proof of experimental purpose. *Manville*, 917 F.2d at 547.



### **7. Whether Records Of The Experiment Were Kept.**

The Federal Circuit has also looked to whether the inventor has maintained records during the experimental period as objective proof of experimental purpose. *See, Allied*, 64 F.3d at 1575 (kept research log).

Minton has submitted hundreds of pages of contemporaneous records documenting the testing and modification of the TEXTCEN program while TEXTCEN was being developed and tested in cooperation with RMST which were either in Defendants files during the Underlying Case or readily available to them (Exhibits 37-40). These records were ignored by Defendants in the Underlying Case and are again ignored by them on their present motion.

The contemporaneous records documenting the testing and perfecting of TEXTCEN include lists of the computer files comprising the different versions of the program from 1994 to 1999 (Exhibit 27) and the computer disks themselves (Exhibit 17), the different versions of the Software Assistance Guides generated during the period (Exhibit 29); copies of emails between Minton and/or his primary beta tester on his team, Brasse, and Stark and/or other members of RMST's team regarding the testing and modifications to the software (Exhibits 23-25). Defendants had



possession of all of these records during the Underlying Case.<sup>31</sup> (Exhibits 38-40).

The emails exchanged between employees of RMST and Minton or other members of his team are particularly instructive as to the nature and detail of the experimentation conducted:<sup>32</sup>

On July 24, 1998, Stark tells Brasse that “[t]he enhanced version is still not working. When do you expect that it will be?” (Exhibit 24).<sup>33</sup>

On the same day, Stark tells Brasse “I need to begin receiving and sending orders from and to you.” *Id.*

On July 31, 1998, Stark writes to Brasse “Henry [Niefeld] and I need to learn how to put up orders.”

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<sup>31</sup> Records in the form of a log listing telephone calls from Stark to Minton and various other notes regarding the project were also kept by Richard Dickerson in the form of a diary. Dickerson was identified as the vice president of Minton's company, TISE, in depositions and documents in the Underlying Case. (Exhibit 33a at 77, lns. 20-25). That diary was always available to Defendants. (Exhibit 37). All they had to do was talk to Dickerson.

<sup>32</sup> Minton's Affidavit attests that these emails are representative of the substance of communications during the entire period, beginning soon after the 1995 Agreement was signed. (Exhibit 36).

<sup>33</sup> Exhibit 24 consists of excerpts from the set of emails in Exhibit 23.

On August 20, 1998, Stark writes to Brasse "I've had the trade desk on all morning. It seems to stay on fine."

On September 10, 1998, Brasse advises Stark that he was available "if anyone wants to practice any trades." *Id.*

On October 26, 1998, Brasse advises Stark that he "had the trade desk on if anyone wants to practice trades." *Id.*

On November 2, 1998, Stark writes to Brasse that "I see you have made changes . . . but most of the buttons are not linked to the proper address." *Id.*

On November 19, 1998, Stark tells Brasse that it "would make sense to change the order screen button named Correct Order to Change Order." In another email on the same day, Stark suggested review of the two buttons named "Cancel Order." *Id.*

On November 27, 1998, in an email cc'd to Stark, Brasse reports a problem to Minton: "Jennifer [Wagner – at RMS] added a stock but couldn't delete it. I tried and deleted it. Then she added another one and she couldn't delete it. I tried it and couldn't delete it. . . ." He also reported that "I shut down the computer completely and still couldn't delete American Aflac Association – AAA." *Id.*

On December 1, 1998, in an email cc'd to Stark, Brasse reports various modifications to the TEXCEN screen requested by Gary

Stark, including having a screen "that shows all the executions." *Id.*

On December 17, 1998, Brasse forwards another of Starks' requested changes; to "have the orders come in the order of the IP's listing in the drop down box." *Id.*

On December 21, 1998, Brasse reports to Stark that "Vernon [Minton] and I worked this weekend on the changes . . . I'll let you know when the update is ready." *Id.*

On December 22, 1998, Brasse sends Stark a sample data base to be used in testing. *Id.*

On January 4, 1999, Brasse sends Gary Stark a new download. *Id.*

On January 8, 1999, Brasse advises Stark of "[l]ots of changes to the browser. Now the market executions are shown." *Id.*

On January 11, 1999, Brasse sends emails to Minton, with copies to Stark, advising of significant errors: In one, he reports that "[T]he Trade Desk is putting 100 in special orders whether you enter anything or not." In another, he reports that he "put in an execution for MHB. When I clicked on All Time & Sales, it only listed my MHB execution and not COMS and MHB." *Id.*

On January 13, 1999, Brasse sends an email to Stark regarding the "RMST update" and explains the various modifications. For example, he notes that the "Time and Sales areas can show executions, open orders, time

and sales of one stock, customer's stock or all stock. The format needs work and some of the file paths will have to be corrected . . . " He also noted that the "Trade Desk does not have to format customer entries now. . . . The order the "orders" are displayed does not matter. It is automatically sorted by price, quantity and the time as is the same in the customer screen." He acknowledges, however that "the program has some bugs as stated above but Vernon hopefully incorporated many of the changes and features everyone wanted." *Id.*

On January 18, 1999, Brasse reported a communication problem with the system to Stark; that the system "will still say you are on line, but you are not." *Id.*

On January 19, Brasse reported to Stark that "[t]he Trade Desk and Customer Screens are now separate programs. I am debugging now. Please download when you get a chance." *Id.*

On January 25, 1999, Brasse advises Stark that "[t]here should be another download about 12 this morning. Vernon has made everything MUCH more automated and much simpler for the Trade Desk." *Id.*

On January 26, 1999, Brasse tells Stark that "I will be pushing this 16 meg of ram machine . . . but if you want to put in some orders tonight or anytime tomorrow, I will close other programs." *Id.*

On January 30, 1999, Brasse advises Stark that "we will practice tonight." *Id.*

The existence and content of these records, undeniably showing diligently conducted experimentation, is objective and contemporaneous documentary proof of experimental purpose.

### **8. Who Conducted The Experiment.**

As Minton testified, when the lease was signed, Minton and Stark set up "teams" on each respective side, who worked 15-20 hours a day. (Exhibit 34a at p. 255, lns. 2-11). Brasse, who lived at Minton's house during most of this period, was the principal tester from Minton's side, in addition to Minton himself. (Exhibit 33a, p. 53, ln. 19 to p. 55, ln. 14; Exhibit 24). This protocol was necessary since testing TEXCEN required communication over the Internet from a computer in one location to another one in another location.

Minton testified in the Underlying Case that he used Stark to "debug" the system. (Exhibit 33b at p. 514, lns. 2-23). Minton further testified in the Underlying Case that Brasse was his "beta tester" and helped him "debug" the programs. (Exhibit 33a at p. 54, ln. 1 to p. 55, ln. 14; p 58, lns. 9-11). The emails attached as Exhibit 24 demonstrate that Brasse performed this "debugging" and "beta testing" in conjunction with RMST on the TEXCEN software leased to RMST. By definition, to "debug" is to "search for and eliminate malfunctioning elements or errors in:

*debug a spacecraft before launch; debug a computer program.* (Exhibit 41) (Emphasis in original). A “beta test” is, by definition, “[t]he final stage in the testing of new software *before its commercial release*, conducted by testers other than its developers,” or “a *second test of an experimental product (such as computer software)* carried out by an outside organization.” (Exhibit 42) (Emphasis added.)

Minton testified in the Underlying Case that he worked on the TEXCEN code 15 hours a day, sometimes more, “continu[ing] to develop it, to make it better.” (Exhibit 33c at p. 616, ln. 18 to p. 617, ln. 10). As the emails discussed above demonstrate, either Minton or a member of his team participated in all, or virtually all, of the many tests of the system conducted over the period. This heavy involvement by Minton and his team throughout the experimentation is further objective proof of experimental purpose.

### **9. The Degree Of Commercial Exploitation During Testing.**

The absence of commercial exploitation, other than that incident to the experimentation, supports a finding of experimental purpose. *Manville*, 917 F.2d at 550 (experimental use found where *Manville* did not initiate a sales campaign to market the invention until after it had determined from testing that it worked for its intended purpose.)

Here, the degree of commercial exploitation during the period of experimentation was effectively zero.



After Minton secured the cooperation of Stark, Minton did not seek any other brokers to lease or otherwise use TEXTCEN. (Exhibit 34b at p. 320, lns. 7-10). And Minton never received any payment, despite years of work developing and testing the software trying to "make work." (Exhibit 34a, p. 272, lns. 17-21; Exhibit 34b at p. 322, lns. 25 to p. 323, ln. 3).

This fact further supports a finding of experimental purpose.

**10. Does The Invention Reasonably Require Evaluation Under Actual Conditions Of Use.**

As discussed above, reliability is an inherent requirement of a trading system that the public will eventually rely upon to facilitate investing using real money. As Minton testified, common sense dictates that without severe, critical testing under real-life conditions, one cannot trade securities. (Exhibit 34a at p. 205, ln. 20 to p. 206, ln. 10). Furthermore, debugging can only be done in an environment where you can debug, i.e., having realistic conditions of actual use. (Exhibit 34a at p. 207 to p. 213, ln. 2). The only way it could be determined that the TEXTCEN system would operate properly on computers communicating trading information to each other using the Internet over long distance, with real investors in real-time, was to test it under load under actual conditions. (Exhibit 34a at p. 98, ln. 25 to p. 99, ln. 16; p. 205 ln. 20 to p. 206, ln. 10; p. 207 to p. 213,

ln. 2; Exhibit 34b at p. 318, ln. 23 to p. 319, ln. 4). Only a licensed broker such as RMST had access to an environment where the operation of the front end and the back end, interfaced together and communicating over the Internet, could be realistically tested and proven under actual conditions of use, including by real customers. *Id.*

This further supports a finding of experimental use.

### **11. Was Testing Systematically Performed.**

As Minton testified, when the lease was signed, Minton and Stark set up "teams" on each respective side. (Exhibit 34a at p. 255, lns. 2-11; p. 270, ln. 24 to p. 271, ln. 21; Exhibit 34b at p. 319, ln. 16 to p. 320, ln. 10; 414, ln. 20 to p. 415, ln. 25). The tests were performed by each of the respective teams in cooperation with the other. *Id.* Minton also testified that the testing encompassed going through "every facet, every line, every form." (Exhibit 34a at p. 270, ln. 24 to p. 271, ln. 21). The systematic and careful nature of the testing is also confirmed by the emails discussed above. (Exhibit 24).

This systematic nature of the testing further supports a finding of experimental purpose.

## **12. Did The Inventor Continually Monitor The Invention During Testing.**

The Federal Circuit has held that "it is always relevant, in an entirety-of-the-circumstances determination, whether the invention had indeed been shown to work for its intended purpose and whether the inventor was acting reasonably in continuing to evaluate the invention." *Seal-Flex*, 98 F.3d at 1323. See, also, *Manville*, 917 F.2d at 550 (inventor inspected light pole luminaire after it had been exposed to a winter of weather). Minton's continual monitoring is abundantly shown by the record here.

Minton testified that he and the other members of his team worked on the development and testing of **TEXCEN** virtually every day; often between 15 and 20 hours a day. (Exhibit 34a at p. 99, lns. 12-16; p. 255, lns. 2-11; p. 270, ln. 24 to 271, ln. 21; Exhibit 34b at p. 318, ln. 23 to p. 319, ln. 4). *Id.*

Minton's testimony is corroborated by documentary evidence in the form of the many emails to and from Stark. (Exhibit 24). The content of these emails demonstrate that the bulk of the emails were directly related to testing the operation of the system on "practice" trades, identifying and solving problems with the software, and updating the software to solve problems. *Id.* Dickerson's diary, logging the many telephone calls from Stark during the relevant period as well as other notes regarding the **TEXCEN** development, also provides contemporaneous documentary

proof of the constant monitoring of the tests. (Exhibit 28).

Minton and his team continued that process for many years, without RMST paying anything to TISE. This commitment to develop, test and perfect the operation of TEXCEN for many years, without compensation, far exceeds the effort that would be expected if the agreement with RMST was an "ordinary commercial sale" rather than one for primarily experimental purposes. This evidence is further proof of Minton's experimental purpose.

### **13. The Nature Of Contacts Made With Potential Customers (Customer Awareness Of The Experimentation).**

In the context of the nature of contacts made with customers, the Federal Circuit has, at times, regarded evidence of whether the customer was aware of the experimentation while it was occurring as an important factor to be considered. *C.R. Bard, Inc. v. M3 Systems, Inc.*, 157 F.3d 1340 (Fed.Cir.1998) (Bryson, J., concurring) (opining it is critical to proving experimental purpose that the purported testers know that testing is occurring).<sup>34</sup>

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<sup>34</sup> The Federal Circuit was divided in *Bard* with Judges Bryson and Mayer concurring as to the invalidity of one of the asserted patents under § 102(b), but each presented a different analytical path to that conclusion. Judge Newman dissented with respect to the on-sale bar.

In a recent decision, a Federal Circuit panel has held that a customer's awareness of the experimentation is "especially important" and "ordinarily" must be proven. *Electromotive*, \_\_\_ F.3d \_\_\_, 2005 WL 11774433, at 9. *But, see, EZ Dock*, 276 F.3d 1347, 1358 (Lynn, J. concurring) (concurring in reversal of summary judgment holding invention was on sale, despite no evidence customer told of experimentation) and *Lisle*, 398 F.3d at 1316 (affirming jury's finding on experimental use; only testimony regarding customer awareness was co-inventor's testimony he "believed" the mechanics knew it was experimental).<sup>35</sup>

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<sup>35</sup> In *Electromotive*, the panel acknowledged that the now "critical" nature of customer awareness of testing was perhaps only "suggested" by prior cases. *Electromotive*, \_\_\_ F.3d \_\_\_, 2005 WL 11774433, at 8. Defendants may not justify their failure to present *any* case on experimental use in the Underlying Case in 2002 by relying on a new statement of law admittedly only "suggested" by cases applicable at that time. *See*, Tex. Disciplinary R. Prof. Conduct 1.01, "Competent and Diligent Representation," Comment 6 ("Having accepted employment, a lawyer should act with competence, commitment and dedication to the interest of the client and with zeal in advocacy upon the client's behalf."). In any event, regardless of whether customer awareness is regarded as a critical fact or a non-critical fact, the evidence of record abundantly demonstrates RMST's awareness of the experimentation.

- a. **The “Customer Awareness” Requirement Does Not Arise Unless (1) The Goods Are Placed “Outside The Inventor’s Control” and (2) The Sales Are Made In An “Ordinary Commercial Environment, Neither Of Which Condition Applies Here**

In making their “customer awareness” argument, Defendants fail to acknowledge that any requirement to show customer awareness of the experimentation does not arise unless (1) the goods are placed “outside the inventor’s control” and (2) the sales are made in an “ordinary commercial environment.” *LaBounty Mfg., Inc. v. U.S. Int’l Trade Comm’n*, 958 F.2d 1066, 1072 (Fed.Cir.1992) (citing *In re Brigance*, 792 F.2d 1103, 1108 (Fed.Cir.1986)). Those factual conditions existed in *Electromotive* but neither exists here.

The TEXCEN system under test was never “placed outside the inventor’s control” and Defendants have made no effort to challenge this fact: Only the TEXCEN front end software was provided to Stark, and Minton still retained *title* to it. (Exhibit 12, Par. 5) This shows Minton’s retention of control. See, *Manville*, 917 F.2d at 550. The host computers required for the TEXCEN front end to do anything useful were *never* provided to RMST and instead remained at all times in Minton’s physical, as well as legal, possession, locked in a cage in his garage. (Exhibit 30, Exhibit 34a at p. 112, lns. 6-13; p. 225, lns. 3-19; p. 269, ln. 25 to p. 270, ln. 16). This also



shows control. The many emails showing the involvement of Minton and his team also show control. (Exhibit 24).

The circumstances surrounding the 1995 Agreement demonstrate that it was anything but a sale made in an "ordinary commercial environment." From the beginning, Stark and RMST understood that what he was embarking on was a "project" or "venture" with "a high level of risk" still requiring substantial "software development." (Exhibit 10). RMST participated in issuing a Private Placement Memorandum for the purpose of obtaining third party investors for TISE. (Exhibit 34a at p. 112, ln. 22 to p. 113, ln. 6). On August 10, 1995 Stark agreed to put off receiving brokerage fees RMST was entitled to receive to allow the money to be put to use by TISE. (Exhibit 15). Over the next several years while the testing and development continued, Stark repeatedly characterized it as a "development" and a "project" and complained of the time spent "testing" with "Marty [Brasse]." (Exhibits 21, 22 and 25).

The facts cited throughout this brief showing the extensiveness of RMST's involvement with Minton in his testing and development during the period, without any payment to Minton or TISE or TCN, demonstrates that although the 1995 Agreement between TISE and RMST was denominated a "lease" of TEXCEN, the relationship retained many of the cooperative earmarks of the "partnership" originally proposed by Stark in his letter of February 28, 1995 for the purpose, in part, of "software development."

(Exhibit 10). It is well settled that a joint development project does *not* start the critical date and therefore cannot cause an on sale bar. *Continental Can Co. USA, Inc. v. Monsanto Co.*, 948 F.2d 1264, 1269 (Fed.Cir.1991) (joint development between customer and supplier did not start the critical date).

**b. There is Abundant Proof Stark Was Aware of The Testing**

Whether customer awareness is accorded non-dispositive or a higher status is not important here, because objective evidence abundantly demonstrates RMST's awareness of the experimentation, from the first day to the last.

Defendants argue that Minton's testimony that he did not recall telling Stark in "those words" that experimentation was his "primary purpose" in entering into the 1995 Agreement is "fatal" to a finding of experimental use. This is plainly wrong.

Defendants fail to point out to this Court Minton's testimony that, prior to the lease, he discussed with Stark that "it needed to be tested before we would be operational and we had until September to get it operational." (Exhibit 34a at p. 252, ln. 4 to p. 253, ln. 20). Defendants also fail to cite to this Court Minton's testimony that he told Stark that "to get the program operational, we had to test it under load with a brokerage firm." (Exhibit 34b at p. 318, ln. 19 to p. 319, ln. 4).

None of the legal authority cited by Defendants states that a customer must be informed that the “primary” purpose of an accused transaction is experimental in “those words.” Federal Circuit authority shows the contrary. *See, Manville* (telling customer device was “experimental” supported finding of experimental purpose); *EZ Dock*, 276 F.3d 1347 (no evidence customer ever told device was experimental); *Lisle*, 398 F.3d at 1316 (affirming jury’s finding on experimental use, relying on co-inventor’s testimony he “believed” the mechanics knew it was experimental, although no evidence mechanics ever actually told such).

Minton’s testimony that (1) he told Stark that “to get the program operational, we had to test it under load with a brokerage firm” (Exhibit 34b at p. 318, ln. 19 to p. 319, ln. 4), and that after Stark personally witnessed the failure of the first test of the TEXCEN system operating over the Internet, Stark adamantly told Minton “we’ve got to make sure it’s right,” demanding that Minton “makes sure it works before we demonstrated it to the NASD again” (Exhibit 34a at p. 252, ln. 11 to p. 253, ln. 24) is more than sufficient proof that Stark was aware the TEXCEN system was “experimental.”

Minton’s testimony regarding Stark’s awareness is corroborated by contemporaneous documentation and Stark’s own statements as follows:

1. The Software Assistance Guide Ver. 4.0, provided to RMST at the time RMST was considering the

lease, cautioned that “development of TEXTCEN will be an ongoing process” and that some features were “future.” (Exhibit 29, pp. 1, 3). This would have put a reader (including RMST) on notice that TEXTCEN was still incomplete and under development.

2. On February 28, 1995, just prior to the date the 1995 Agreement was signed, Stark sent a letter to Minton characterizing TEXTCEN as a “project” or “venture” having “a high level of risk.” (Exhibit 10). He also acknowledged the need for additional investment of \$150,000 for, in part, “software development” and even expressed that his participation in the project would entail substantial expenses on his part (at an amount estimated at \$75,000). Stark suggested a partnership to accomplish the project. *Id.*

3. Stark admitted to an NASD attorney on May 31, 2001 that at the time he was “considering the lease” the “system was not completely functional yet.” (Exhibit 32a at p. 1 (handwritten) and 32b at p. 1 (typed)).

4. In a memorandum dated May 2, 1997, and again in a memorandum dated July 17, 1997, Stark referred to “development of or “developing” the software. (Exhibits 21 and 22).

5. The many emails between Minton’s team and RMST’s team during the development and testing demonstrate that Stark was not only “aware” of the experimentation, he and his employees actively *participated* in it, by testing the software and requesting modifications throughout the project. (Exhibit 24).

Obviously, Stark was aware that TEXCEN was an experimental software product requiring a lot of further development and testing.

6. An email written by Stark on February 2, 1999 (Exhibit 25) in which Stark expressed lingering concerns about the "reliability" of the system and when the "project" would be "completed," and complained about the time his own employees had been required to spend in "development" and "testing" of the system further shows his awareness of the testing. He stated:

I would like to complete the *project* using the software *we have been developing* if possible. Here are my concerns:

a. *Can the system be reliable? Our experience to date had not proven it as reliable.*

b. *Is the technology on par with other systems? I'm somewhat concerned that it will be cumbersome to execute a high volume of trades in volatile markets such as those we have been experiencing. The more the execution process can be automated, the better?*

c. *What would be a drop-dead date to get the system up and operational?*

d. *What compensation do you expect for the software and how do you expect to get paid?*

\* \* \*

As to a start date. I've been thinking for a year now that we were about to go live. We have had many conversations with the SEC to this end. The 17a-23 is essentially ready to file which would allow us to go on line. However, time continues to drag on without this project reaching completion. *We have to set a date at which we will either consider this project complete or drop it.*

\* \* \*

Regarding compensation. *When it's all said and done, RMST has to own the software to be in compliance with the SEC. To do this, you must be compensated.* Compensation is difficult because *we both have significant development costs in this project. . . .* Telephone costs have been high dealing long distance with Marty [Brasse] and *we have spent many employee hours on reviewing the system, loading, updating, testing etc.* Whatever compensation we agree on should recognize these costs and be fare (sic.) to us both.

(Exhibit 25) (Emphasis added). Soon after this email, RMST elected to terminate participation in the project.

The foregoing evidence leaves no doubt that RMST knew he would be involved in an experimental project from the start and was aware of the experimentation throughout the project, under *any* applicable legal standard.



## **E. The Cases Cited by Defendants Do Not Support Summary Judgment**

### **1. *Sinskey v. Pharmacia Ophthalmics, Inc* Is Inapplicable**

Defendants contend that *Sinskey v. Pharmacia Ophthalmics, Inc.*, 982 F.2d 494, 499 (Fed.Cir.1992) authorizes this Court to disregard Minton's affidavit and eyewitness testimony demonstrating his primary purpose was experimental. *Sinskey* does not stand for this proposition.

*Sinskey* concerned the narrow question of whether an inventor's mere expression of "subjective experimental intent" may take precedence over contrary objective evidence that would otherwise establish that a particular use was non-experimental. *See, Articulate Systems, Inc. v. Apple Computer, Inc.*, 53 F.Supp.2d 62, 73 (D.Mass. 1999) (fn. 9). In rejecting the same argument regarding the application of *Sinskey* to preclude testimony that Defendants make here, the Court in *Articulate Systems* stated:

Apple proposes a simple means of circumventing the prohibition against courts weighing evidence on motions for summary judgment. Citing *Sinskey v. Pharmacia Ophthahlmics*.[sic], *Inc.* [citation omitted] it says the court should simply 'disregard Mr. Vasquez's [p]ost-hoc affidavit testimony.' *Sinskey* is inapposite, however. . . . Apple has not cited, and the court's independent research has not found, any case that supports the extraordinary proposition that the sworn

testimony of an eyewitness to an event concerning what the witness perceived at that event may be “disregarded” on a motion for summary judgment whenever the event occurred some years earlier and the testimony conflicts with inferences that other evidence would arguably support.”

*Id.*

As in *Articulate Systems*, *Sinskey* is inapplicable. Minton’s sworn February 19, 2002 Affidavit in the Underlying case (Exhibit 35) and current testimony express far more than a mere “subjective intent to experiment” and are not inconsistent with his prior testimony. Minton’s testimony in his affidavit and depositions is that of a first-hand witness to the objective facts of what he *said* to Stark about the need to test TEXCEN, what he and Stark *saw* when TEXCEN failed to function in the Internet test, what he *heard* Stark say to him when TEXCEN failed to function in the Internet test and what he *did* in working over 15 hours a day for the next several years testing and trying to perfect TEXCEN in cooperation with Stark and other employees of RMST, all of which testimony is consistent with and corroborated by other objective and documentary evidence. Minton’s eyewitness testimony cannot be disregarded on motion for summary judgment simply because it (like all testimony presented in court) is “post-hoc” and not to Defendants’ liking.

Contrary to Defendants’ *Sinskey* argument, the Federal Circuit has repeatedly cited and relied upon

inventor and patent owner testimony to support a finding of experimental purpose. *See, e.g., Allied Colloids*, 64 F.3d at 1575 (relying on patent owner's testimony that tests were part of its project to ascertain which if any of the formulations would work on Detroit sewage to reverse grant of summary judgment that invention was on sale); *Lisle*, 398 F.2d 1315 (relying upon inventor's testimony that he "believed" the mechanics that had been given the prototype tool knew that the tool was given to them for experimental purposes to uphold a jury's verdict of experimental use); *Manville*, 917 F.2d at 547-9 (relying on inventor's testimony as well as contemporaneous documents to support finding of experimental purpose).

Accordingly, *Sinskey* provides no legal basis for disregarding Minton's affidavit or testimony in support of experimental purpose.

## **2. *Electromotive v. Transportation Systems Div. of Gen. Electric* Does Not Support Summary Judgment**

The case of *Electromotive Division of General Motors Corporation v. Transportation Systems Division of General Electric Et Al.*, \_\_\_ F.3d \_\_\_, 2005 WL 11774433, cited by Defendants in their Supplemental Brief, does not support summary judgment in this case. Indeed, the facts of *Electromotive* are the exact opposite of the facts of the present case.

In *Electromotive*, the patent owner (EMD) had tested the bearing at issue in an in-house program that simulated actual use conditions over extended periods of time, a program that had been deemed a success that “addresses all known failure modes.” *Electromotive*, 2005 WL 11774433 at 4. Thus, the Federal Circuit did not find any necessity for the alleged “field test” at issue. *Id.* at 11.

By contrast, Minton had only successfully tested TEXCEN with one computer operating on a LAN system under conditions that did not come close to replicating actual conditions of use over the Internet. The only prior test he conducted using it over the Internet prior to the lease was a failure. The system had never been tested under real-life conditions of trading, which could only be accomplished by a licensed broker (which Minton was not).

In *Electromotive*, the Federal Circuit found no evidence of control over the experimentation because EMD employed no protocols, conducted no supervision over the tests and did not restrict the use of the locomotives employing the subject bearings in any way. *Electromotive*, 2005 WL 11774433 at 9.

By contrast, Minton retained ownership of TEXCEN, established a protocol with a team on each side interfacing with the other, provided only the front end of the system to RMST, retained physical possession of the “brains” of system locked in his garage, and otherwise demonstrated virtually complete control over and involvement in the experimentation.

In *Electromotive*, there was no confidentiality restriction. *Electromotive*, 2005 WL 11774433 at 3.

By contrast, the 1995 Agreement has the confidentiality restriction that the patent owner in *Electromotive* lacked. (Exhibit 12, Par. 10).

The patent owner in *Electromotive* never informed its customers of any details about the subject bearings. *Electromotive*, 2005 WL 11774433 at 4.

By contrast, Minton provided RMST a Software Assistance Guide, which warned that "the development of TEXCEN will be an on-going process." (Exhibit 29, at p. 1).

In *Electromotive*, the Federal Circuit found the only evidence of record, testimony by an EMD employee that some *other* unidentified EMD employee may have engaged in a conversation with an unidentified employee about the alleged testing and an internal EMD internal memo (never provided to the customer), was insufficient to show awareness by the customer of the testing. *Electromotive*, 2005 WL 11774433 at 10.

Here, by contrast, there is abundant, first hand witness testimony corroborated by abundant documentary evidence showing Stark's awareness that TEXCEN needed to be further developed and tested, that he knew he would be involved in the further development and testing of it, and that he was, in fact, involved in the development and testing of it

from the beginning of the “high level of risk” project to the end of the project many years thereafter.

EMD did not control or systematize Union Pacific’s use of the subject locomotives. *Electromotive*, 2005 WL 11774433 at 9.

By contrast, Minton set up teams and a protocol to test the operation of TEXCEN and was involved in every phase of the testing, including going over “every facet, every line, every form.”

In *Electromotive*, the customer neither conditioned its purchase of the locomotive on the operability of the new planetary bearings nor withheld payment in an amount corresponding to the cost of the new planetary bearings pending the results of the field program. *Electromotive*, 2005 WL 11774433 at 11.

The situation is exactly the opposite here. Minton retained *title* to TEXCEN, leasing only *use* of it. The 1995 Agreement expressly gave RMST the right to terminate if the TISE system was not “operable” in a commercially reasonable manner by September 1, 1995 (after the critical date). The lease required no payment by RMST unless and until the system was ever actually used by Stark’s customers, which use had not been approved by either the SEC or the NASD at the time of the 1995 Agreement or thereafter, and therefore prohibited by Pars. 4 and 6 of the 1995 Agreement as illegal.



In *Electromotive*, EMD engaged in substantial commercialization of the invention prior to the critical date, selling 303 of one version of the subject bearings and 105 of another at the normal price. *Electromotive*, 2005 WL 11774433 at 4, 11.

By contrast, Minton provided the TEXCEN front end to RMST only, with a nominal "rent" term that, even if the system ever became usable and the *maximum* payment was made, was a well-below-market price, and Minton never received a dime of payment of even that.

### **3. The Other Cased [sic] Relied Upon By Defendants Likewise Do Not Support Grant of Summary Judgment**

*Paragon Podiatry Laboratory, Inc. v. KLM Laboratories, Inc.*, 984 F.2d 1182 (Fed.Cir. 1993), also cited by Defendants, does not support grant of summary judgment in this case. In *Paragon*, the Federal Circuit supported its decision affirming summary judgment notwithstanding the inventor's declaration that he "considered" the sales experimental, where the patent owner published price lists, sold 300 of the devices before the critical date in an "ordinary commercial environment," exercised no control any of the experimentation and never informed the doctors the device was experimental. *Paragon.*, 984 F.2d 1185-6. To the contrary, the patent owner represented that the devices had already been subjected to "exhaustive clinical testing." *Id.* at 1187.

By contrast, TEXCEN was under on-going development, required substantial further software development, had never been successfully tested in its intended environment, all of which Stark was aware of at the time. Minton used Stark to “help [him] debug” the system and never received any payment. Minton also maintained virtually complete control of the system during testing. The circumstances surrounding the 1995 Agreement were also anything but an “ordinary commercial environment.”

*Lough v. Brunswick Corp.*, 86 F.3d 1113 (Fed.Cir.1996) does not support Defendants’ position. In *Lough*, the Federal Circuit found that the inventor distributed the invention to members of the public (his friends) without involvement in the alleged testing, without any supervision or control over use of the seals and without keeping any records. *Lough*, 86 F.3d at 1121. As a result of the absence of control and records, the Federal Circuit found the public use of the invention was not experimental. *Id.* at 1122.

Again, the exact opposite is the case here. Minton had virtually complete control as a result of retaining title to the front end of TEXCEN, retaining physical as well as total legal control over the back end “brains” of the system, locked in his garage, and Minton was involved in all testing. Minton also maintained records in the form of the computer files documenting the changes to the system during the testing period, different versions of the Software Assistance Guide as they were revised to document changes, emails showing extensive testing and communication

between Minton's team and RMST's team, and a diary logging the many telephone calls from Stark during the period experimentation was conducted.

*U.S. Environmental Products, Inc. v. Westall*, 911 F.2d 713 (Fed.Cir.1990) is also distinguishable. In *U.S. Environmental Products*, the Federal Circuit affirmed a district court's conclusion after trial that a patent was invalidated by a sale more than one year before the filing date, relying upon (1) the lack of written progress records and the failure to adhere to a testing schedule; (2) the inventor's failure to maintain control over the testing; and (3) promotion of the invention during the testing and (4) the absence of a secrecy agreement. *U.S. Environmental Products*, 911 F.2d at 718.

Here, the exact opposite is true. Minton has presented (1) ample written records documenting the development and testing and diligently and systematically conducted testing during the entire period; (2) maintained virtually complete control during the testing period, (3) never attempted to enter into any other leases, sales or licenses of TEXCEN during the period and (4) did have a secrecy clause in the agreement.

**F. Controlling Authority Supports Denial of Summary Judgment**

**1. This Case Is Highly Analogous to *Manville* Where the Federal Circuit Upheld A Finding of Experimental Use**

The facts of *Manville*, 917 F.2d 544, where the Federal Circuit upheld a finding of experimental use, are highly analogous to this case. In *Manville*, the plaintiff's employees invented a new, self-centering lightpole luminaire and installed one in a rest area being built along an interstate highway in Wyoming which was not yet open to the public. *Id.* at 547-8.

Here, as in *Manville*, Minton provided the TEXTCEN front end to only RMST, and RMST conducted only in-house testing on TEXTCEN, never providing it to its customers.

In *Manville*, the plaintiff exercised control over the testing by installing the luminaire in the fall, removing it in the spring, and thoroughly examining it following this testing period. *Manville*, 917 F.2d at 548.

Here, as in *Manville*, Minton was intimately involved in the development and testing of TEXTCEN during the period, was engaged in nearly constant communications with RMST, and examined and corrected problems with the software. Either Minton or or [sic] his beta tester, Brasse, acted as one side of every test trade conducted with RMST from the

beginning to the end of the project. He also directly controlled the testing of TEXCEN by retaining *title* to the system and maintaining both legal and physical control over the back end servers.

In *Manville*, the drawing of the luminaire contained a confidentiality notice, which was relied upon to support the finding of experimental purpose. *Manville*, 917 F.2d 550.

As in *Manville*, the 1995 Agreement in the present case included a confidentiality clause. (Exhibit 12, Par. 10).

In *Manville*, the inventor lacked confidence that the luminaire would perform in its intended environment because *Manville* had only tested a single luminaire on a pole in the backyard of its Ohio factory for a few days, not under Wyoming winter conditions of high wind and ice for any extended period of time. *Manville*, 917 F.2d 548.

Here, Minton did not know the system would work in its intended environment, with multiple users over a public communications system, since he had only successfully tested it on a LAN with one computer and the only test he conducted using it over the Internet prior to the 1995 Agreement had been a failure. Without testing under real-life conditions, under load, which Minton hoped he could accomplish through RMST providing TEXCEN to its customers, no one could know that system would perform reliably under the severe real-life conditions of trading,

where speed is critical and virtually 100% reliability is required. Despite this, Stark never found the system to be "reliable." (Exhibit 25).

In *Manville*, payment was conditional on "satisfactory operation." *Manville*, 917 F.2d at 548.

The situation is analogous here. The lease expressly gave RMST the right to terminate the TISE system was not "operational" by September 1, 1995 (after the critical date). It required no payment by RMST unless and until the system was actually used by Stark's customers, which never happened. Furthermore, the amount of revenue that TISE could receive could range from \$0 to a maximum of \$2000 per month. Even the maximum theoretically possible of \$2000 per month was well below the later-determined value of either TEXCEN or the method and apparatus of the '643 patent.

In *Manville*, there was evidence that the customer was aware the device was "experimental." *Manville*, 917 F.2d 550.

The circumstances are the same here. Minton testified he informed Stark prior to signing the lease that "to get the program operational, we had to test it under load with a brokerage firm." Prior to the 1995 Agreement, Stark knew the "system was not completely functional" and that "project" had "a high level of risk" and still required "software development."



During the project Stark referred to it as a “development” of software. At the end of the “project”, Stark complained of all the time spent “*updating, testing, etc.*” (Exhibit 25) (emphasis added).

**2. This Case is Highly Analogous to *Elizabeth v. Am. Nicholson Paving*, the Seminal Supreme Court Case Supporting Experimental Use**

The facts of the present case are also highly analogous to *Elizabeth*, 97 U.S. 126, the seminal Supreme Court case supporting experimental use.

In *Elizabeth*, the inventor’s company retained control over the physical toll road – in that case the “brawn” of his invention – while providing use of the paved road to the public in return for the payment of tolls to his company (of which he was an officer and shareholder). *Elizabeth*, 97 U.S. at 133-6.

Here, Minton’s company, TISE, maintained ownership of TEXCEN and physical control over the “back end” of the system – the “brains” of the system – leasing the [sic] only the *use* of TEXCEN to Stark, and controlled the code to both the front and back end.

In *Elizabeth*, the inventor (Nicholson), as an officer and shareholder of the toll road company where the new paving was laid, stood to indirectly benefit from the revenues the toll-paying public would pay the company for using the paving. This fact did not

detract from the finding of experimental purpose. *Elizabeth*, 97 U.S. at 133-6.

Here, Minton was sole inventor and the president and the majority shareholder of TISE, which could have (theoretically) received revenues if TEXTCEN was ever used by the public, thus providing an indirect benefit to Minton as a shareholder. As in *Elizabeth*, this fact does not detract from a finding of experimental purpose.

The present facts are even more compelling than the facts of *Elizabeth*. In *Elizabeth*, the paving was commercially usable immediately and tolls were received by the inventor's company from use of the paving the entire time. *Elizabeth*, 97 U.S. at 1336. By contrast, TEXTCEN was not commercially usable when the lease was signed and never became so, for technological as well as legal reasons. And Minton's company, in fact, never received any revenue at all from use of TEXTCEN by RMST or any of its customers.

In *Elizabeth*, there was evidence that the inventor's toll road company was aware that the inventor was conducting testing. *Elizabeth*, 97 U.S. at 133.

Here, there is abundant testimonial and corroborating documentary evidence that Stark was aware Minton was conducting testing on the system.

It is respectfully submitted that *Manville* and *Elizabeth* both support denial of Defendants' motion for summary judgment.

#### IV. CONCLUSION

The record on this motion contains substantial sworn testimony and corroborating documents supporting experimental use that was either in the actual possession of Defendants during their representation of Plaintiff in the Underlying Case or readily available to them. Defendants had multiple opportunities to timely raise the experimental use argument but did not. As the Federal Circuit stated when refusing to consider the untimely raised experimental argument on the merits: "The experimental use doctrine has long been a fixture of patent law" and there was no "justification for [the] tardiness in raising the issue." *Minton v. National Ass'n of Securities Dealers*, 336 F.3d 1373, 1379-80 (Fed.Cir. 2003).

The evidence of record demonstrates 'hat Defendants' negligence resulted in the invalidation of Plaintiff's '643 patent over TEXCEN, which would not have occurred but for Defendants' negligence in failing to presenting [sic] the evidence and arguments discussed above to negate the on sale bar, with loss of royalties to Plaintiff of over four million dollars per month. That was very great damage.

For all the foregoing reasons, Defendants' motion for summary judgment should be denied in all respects.

Respectfully submitted,

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VOLUME 1 OF 1

TRIAL COURT CAUSE NO. 048-207288-04

|                  |   |                       |
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| VERNON F. MINTON | § | IN THE DISTRICT COURT |
| VS.              | § | TARRANT COUNTY,       |
| JERRY W. GUNN,   | § | TEXAS                 |
| ET AL            | § | 48TH JUDICIAL         |
|                  | § | DISTRICT              |

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HEARING

\*\*\*\*\*

On the 26th day of May, 2006, the following proceedings came on to be heard in the above-entitled and -numbered cause before the Honorable David L. Evans, Judge Presiding, held in Fort Worth, Tarrant County, Texas:

Proceedings reported by machine shorthand.

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[4] PROCEEDINGS

(Friday, May 26, 2006, 2:00 p.m.)

THE COURT: I assume that you would prefer to have a ruling on the pending motions and to argue the last filed motion?

MR. JOHNSTON: Judge, I guess there's a tier of three motions, and you can pick the one you want to rule on, Your Honor.

THE COURT: Well, I know that. I'm ready to rule on it. I'm afraid if I didn't rule, I would procrastinate on it for another eight or nine months.

And I certainly want to apologize to the parties and to Counsel for not getting this ruling out quicker. Could have done it; should have done it. I will admit to have changing – changed my mind more than once in the process.

I have attempted – and I believe that I have read everything that's been submitted and all of the exhibits, and some of them I have read more than once. And I know that I have read all the cases, and most of

those I have read the relevant portions more than once.

I am going to grant the motion for summary judgment filed by the defendants, so we can cut to the chase and get that out of the way. And I [5] assume you figured that was telegraphed by the fact that I had granted the motion to abate so quickly once it hit my desk.

The defendants would like for me to grant that in a global manner so that they can defend it on any grounds, and I think that places a very unfair burden on the plaintiff on appealing it. And so I'm going to take the risk of making a rather detailed ruling on the record, so that you have an opportunity to get a detailed ruling out of me and make a more directed attack at the Court of Appeals rather than try to probe around it.

And, quite frankly, that's what's taken so long. I – Because of the fact that – and I take it, it was Mr. Shiells who was so responsible for drafting the 72-page response.

In the end, it became incumbent upon me to deal with each of those evidentiary contentions to make a decision whether I felt like there was any evidence of experimental purpose raised, and I vacillated over a couple of them rather strongly as to whether we had a scintilla there or not.

I will tell you that – just intellectually that there's some strong question in my mind whether I'm

right on that issue eventually. I [6] think those who are listening closely will realize that I have only granted in part – or will grant only in part the traditional motion for summary judgment.

But I will not grant the traditional motion for summary judgment in totality, but instead will rely upon the no-evidence motion for summary judgment that there is no evidence of experimental purpose.

And I'm going to go through – I think at first the way to proceed is to lay out for you, if you will bear with me, my review of the contentions made on the various pleadings, which there are, I believe, ten at this point, and then come back and make the ruling so that you can understand where I ruled.

And then you can have this transcribed, and then we can try to work out an order. And based on my experience, I probably don't think we are going to get an order in here for 60 or 70 days. I don't think it's going to be an easy task. I'm not going to let them submit to me an order that says, "We win; you lose."

You're just going to have to figure out how to reason it, or I may end up having to write it after I see it.

I just don't think it's right in this [7] kind of case to throw it on them to probe around and try to figure it out through all the various theories that are out there. Because, quite frankly, it doesn't emerge just on the motion and response. This thing is two – two tiered.

So let's start on that basis. And the way I – the first motion we have is the Joint Defendants Motion For Summary Judgment filed on June the 30th, 2005, and that motion seeks to – to have a motion for summary judgment granted on two grounds; one, on the basis of a traditional motion for summary judgment, because as a matter of law there is no causation, because there is no primary purpose that – because the primary purpose was established as a matter of law that there was a commercial use, and therein starts part of our semantical problem with this entire case.

There is also a no-evidence motion, because they allege that there is no evidence of causation, and it is explained that there is no evidence of experimental use.

The semantical problem that I found in the case, and didn't finally resolve until sometime after you filed all of your pleadings in October, does start with the – with the problem in federal law that [8] I think – Mr. Shiells, I probably like the case of – *Monon* (phonetic) case that you submitted. I don't know if you recall or not. Well get to it in a minute.

The question is, is – and this is really pretty – pretty problematic is, is I have analyzed this that its – for this purpose: That commercial purpose is a question of fact, experimental purpose is a question of fact, but primary purpose is a question of law. And I read those cases – under federal practice. And its a matter of substantive law and not a procedural law.

And almost all of those cases that – and I think I'm correct on that, and that will be a – a problem on – it may be a problem on appeal, but I'm not certain that I'm incorrect.

So it starts there, and here's the way I would try to phrase it to you: Whether or not somebody was negligent as a defendant is a question of fact, but whether or not that – a defendant who was 49 percent negligent or not is liable or not is a question of law.

And the way the federal cases analyze it, as I see it, is that commercial purpose is a question of fact or disputed facts that give rise to that are [9] disputed – are questions of fact. Experimental purpose is a question of fact or the disputed facts that give rise to those inferences.

And then its a judicial decision under patent law to determine whether the primary purpose was commercial or not.

I think I'll come back to the ruling on the traditional motion in a minute. There is a brief then submitted on August the 8th, '05, by the defendants, and its titled "Defendants' Motion For Supplemental Brief in Support of Joint Motion For Summary Judgment."

And because everybody in their briefs actually made contentions that relate to their motions, its my intention to try and rule on all of the contentions, whether they were in a brief or in a motion.

Any objection procedurally on that,

Mr. Keltner? You want to speak to that? Its going to favor your clients as well as them.

MR. KELTNER: Well, I think what you said was right up front. Its the – its a fair thing to do in a motion like this up front, and you were talking about ruling on each of the contentions and arguments made.

[10] THE COURT: Yeah. The problem is, is that the briefs really – the – the nomenclature brief – they become more than briefs. They become – they become requests for relief at the end of it. Every one of them ends with a request for relief.

And they elaborate on the argument and fill out the argument on both sides. I assume you want to appeal this case and get a clean decision and not just another run at it.

MR. KELTNER: We would like them to uphold you in all things, of course.

THE COURT: Well, now that you have heard where I'm going, yeah.

In any event, the contention in the brief filed on August the 8th is they raise the *Electromotive* case and allege that as a – that unless there is proof of – that Mr. Minton told Mr. Stark that the purpose of the lease – the primary purpose of the lease was experimental, that they could not prevail.



And there is a substantial amount of briefing that follows after that on that contention. It becomes one of the main contentions in the litigation. And I feel it fairly raised and responded to – even though it was placed in a brief entitled – [11] it was in a pleading entitled “Brief.”

The plaintiff’s response to the motion for summary judgment is thorough and exhaustive, quite frankly, and raises, I think, each and every – makes an argument on the evidence that is available on each and every point that might give rise to experimental use.

And I won’t list all 13 of them for purposes of the record, but there are at least 13 – there are 13 alleged, and there’s two subparts to number one.

And the one that I think that I need to address on the first sweep through here, of course, is an – one of them is an overriding question about whether experimental use is a question of fact and not of law, and its raised first by Mr. Shiells in this point.

And, as I have indicated, I do believe that experimental use is a question of fact, but I believe the primary purpose is a question of law. And you may want to come back and argue that, but that’s where I am.

I cannot see in this case ever submitting to a jury, either in federal court or otherwise, what was the primary purpose, commercial or experimental.

[12] And that's – that's where I think the question of law is.

Now, if the defendants begin to get a little weak in the knees over that and think I've read the law wrong, then they probably need to step up and say, We can't hold that up, and we want you to go back to first base.

The defendants' reply on 9-13-05 to the plaintiff's response, and I pick up several things from that. They bring up the – they discuss the experimental use as a question of law, but when I read their case, I think I'm correct that it's whether the primary purpose is a question of law, not just whether experimental use is.

They do raise five contentions in the reply. One is – and I think this is probably a good statement on the law in the question of the – on the question of use as a question of law.

The question before the Court is whether totality of the circumstances cited by the parties legally establishes the primary purpose of the Stark lease as commercial or experimental, and I just changed the words "facts proved" and put in "facts proven."

This is probably not going to make much [13] sense to you until you read it, and I understand listening to it is not helping much.

That second one is there is no competent evidence to contradict the statement of the lease. It was for commercial purpose.

Number three point was the lease establishes as a matter of law that the purpose was for commercial purposes.

And, number four, that there was no evidence that Stark was aware of the commercial purpose.

And, number five, the efforts to reduce the work to make it work over the Internet or legal – are legally irrelevant to the issue of experimental use, because, one, TEXCEN had been reduced to practice on LAN, and, number two, the patented claims did not require the program to work on the Internet.

And this would become a focus of the later arguments and a key issue to the ruling in this court, and I feel that it was fairly raised and briefed in evidence submitted by both parties on that point. And as you can tell from the tone, that's going to become a key issue for me.

The defendants also filed objections to the Adler note, which I'm going to come back and [14] address. Those objections are on hearsay and unequivocal – the hearsay objections are set out, and those objections were filed on September the 13th, 2005.

The next pleading that was filed does give me some cause, because it's not actually a pleading that I'm going to rule on today, but it is the plaintiff's first amended petition, and it was filed without leave on October the 10th, 2005.

And I have looked – I have compared that pleading with the pleading that the motions were submitted

on, and I determined that two parties were dropped from the lawsuit. I believe Jamail was dropped and the law offices of – I've forgotten the last defendant.

However, paragraph count number 18 adds a claim, and I think – let me – I'm sorry to paraphrase it – and that is the claim that if experimental use had been pled timely, the underlying litigation would have been settled – would have had settled favorably to Minton.

I have tried to decide whether or not my ruling today will actually dispose of that or not. And I'll have to admit, Randy, I think you got me that I can't dispose of it if I let you plead it. Because [15] by its own phrasing, it says we didn't have to have a favorable outcome determination, we just had to plead it timely and we would have gotten a favorable settlement.

So it almost assumes an unfavorable – you know, that you don't have to have a favorable result on experimental use by the fact finder in the patent litigation.

The defendants are going to now tell me that I shouldn't allow you leave to file that. I'm granting the leave. You are going to have to file a separate motion that says that you cannot recover for potential settlement in a legal malpractice act. I think you made your motion, and you will have it up here. I think you will be making law if you get that recovery from this Supreme Court, unless you can tell me something different.

MR. JOHNSTON: I'll simply observe, and we'll obviously brief it at the appropriate time.

THE COURT: I understand. I'm not asking you to concede it is the state of the law today.

MR. JOHNSTON: I usually respond when the issue is brought up, but 99 percent of all cases settle, and there is nothing about this case which makes it one of those of a hundred that necessarily [16] would not have settled. But it is an issue, there is law out there on it, and we can . . .

THE COURT: In this – in this jurisdiction?

MR. JOHNSTON: In the State of Texas, there is. You know, let me not skate too far out on that ice. I'm not sure if its in the State of Texas. We'll just have to deal with that, Your Honor.

THE COURT: I didn't find it.

MR. JOHNSTON: I may be thinking of other jurisdictions.

THE COURT: I went looking.

MR. TOBEY: My memory says *Rhodes v. Batilla*, but without having read that case real recently, I'm not confident its standing for the proposition.

THE COURT: I'm still going to let you get there.

MR. JOHNSTON: And if I can just parenthetically interrupt the Court's order in that regard, one of the things that – one of the offers I make to the defendant at this point in time, if it turns out that we are right on that point, and, therefore, we don't have a complete summary judgment, it may or may not be in all of the parties' interests [17] to allow the issue to go to the Court of Appeals without hindering the whole process by this one issue at this point in time.

And we can talk about whether there's a procedural way we can package it so that we don't lose the claim. But we'll discuss that and come back to the Court.

THE COURT: I thought you would. And, you know, the defendants may want me to reconsider my motion.

I have told you I'm going to grant leave. I'm going to get all this out. I am entering an order today there will be no more petitions or answers or motions for summary judgment or supplements to summary judgments or briefs or anything additional added without leave of this court.

And it will have to have a cover on it that says, Motion For Leave, and set it for hearing. And its not my intention to let – it's a huge record. It's very difficult for me to carry around and ignore, although I probably have done a good job of it.



All right. The next pleading, and this is going – I'm sorry – I want this in here so I can read it later on.

[18] There is a brief on 10-12-05, and that's the Defendants' Posthearing Brief in Support of Joint Motion For Summary Judgment, and the contention in that is that they were – that the plaintiffs were testing nonclaimed, nonessential features. And you cite a case that I thought was helpful to me, and that was *In Re: Theis* about the voice-activated response system.

You also make the point that testing under load is vague and not capable. It is vague and doesn't have any meaning. And you make the contention that the invention was reduced to practice prior to the lease of '95.

The defendants filed a supplemental objection on October the 12th, '05, and this objection goes to – actually is an objection to, I believe, Brasses affidavit and additional proof offered by supplemental affidavit by Stark, which I'm going to try to deal with Stark in a little bit.

There's a Plaintiff's Supplemental Response and Brief filed on 10-13, and this one makes the offer of Stark's affidavit. I need to be better at this.

Stark's affidavit – there's more than one Stark affidavit. He apparently has a propensity [19] to sign affidavits, from what I gather from this case.

But, in any event, I'm going to try to get these right. But this is an effort to get Stark – Adler's notes in under different theories of recorded recollection. It also – here's the Brasse affidavit – and makes arguments – I don't think raising any new contentions that were there, but certainly supplementing them.

Then there's a plaintiff's response to the brief of 10-21-05. I may be off on that. Let me get this right.

All right. Then there's a plaintiff's response to supplemental objections filed on October the 21st, '05, and there's three tenders made on the Adler notes; one under 8033, 8035, 8036 and there's a fourth tender on 803E at 1AB. That's it.

Let's go back. And I'm going to get a phone conference at 2:30, but it's not going to take me but five minutes, I hope, to respond to the question.

The traditional motion for summary judgment is granted in – partially. I find that as a matter of law that it's been established there was a commercial purpose to the lease of May – is it May 18 – May 18th, isn't it, 1995?

[20] MR. WAITE: March 18th – I think it's March 8th, Your Honor.

THE COURT: Let me get that timeline, because I'm not sure. I do find there is a commercial purpose. That is a – that is – and it is established as a matter of law that fact question. I do not find – I – but that doesn't reach the question of law of whether

the primary purpose was a commercial purpose or not.

It's only that there was a commercial purpose to the lease. I did – I do not find that the traditional motion for summary judgment is granted insofar as it attempts to negate the existence of an experimental purpose.

The traditional motion for summary judgment artfully points to the evidence that was raised on the motion for reconsideration at the patent case and says that it couldn't – it's not admissible proof to show a experimental purpose, because it's contrary to a deposition given by Mr. Minton in the patent litigation.

That doesn't negate the existence of experimental use. You didn't establish as a matter of law that there was no experimental use. You simply pointed to evidence in the underlying case and said [21] that wouldn't be admissible to show it, but you didn't carry your burden on a traditional motion that establishes as a matter of law there was no experimental use.

Because, quite frankly, you might not have, because it's very difficult case law to read, and so I'm sitting now making this mistake early on, and I'm sticking with this mistake.

Experimental use is a fact question, commercial use is a fact question, but primary purpose is a question of law. If I'm wrong about that, then it's all coming back to me.

(Interruption.)

(Recess taken from 2:28 to 2:37 p.m.)

MR. WALKER: I think it's okay if we go forward without him.

THE COURT: All right. The second pleading, going back through the details of it, there was a brief filed by the defendants on August the 8th, '05, in which they raised *Electromotive*, and *Electromotive* would become part of the issue. And it was an influential case, but in the end of the day I'm going to reject the defendants' contention that Minton had to use magic words and tell Stark that the lease was primarily for commercial purposes.

[22] I think that when you read *Electromotive* and – and, by the way, Mr. Shiells, I'm going to reject your contention that there's a conflict between *Electromotive* and *EZ Dock* since *Electromotive* reconciles *EZ Dock* right there inside the opinion.

I'm just going to rule that the totality of the circumstances are what you look at to determine whether Mr. Stark would have notice of the experimental purpose or not.

And so that's what I'm going to be looking for when we get to the no-evidence motion as to whether or not he is – there is a scintilla of evidence that Stark had reason to know that there was an experimental purpose.

I'm going to skip the plaintiff's response because I'm going to have to rule on some other issues before I can deal with the plaintiff's response, except to tell the plaintiff that at this time I think the best way I can phrase it is, is that you make the point that there must be objective and corroborative evidence – there is objective and corroborative evidence of experimental purpose, but you have got to define what the experimental purpose was. And it's got to be as to a claimed element in the patent.

[23] And at the hearing – I think I have still got – I know I had the note because I located it. I left it in my office.

Well, I made a note, and I think I'm still – and I am comfortable with it. You have to show that there was experimental – I believe I'm right. I am kind of – I guess I'm inviting comment at some point.

There was an experiment that – there was an experimental purpose as to a claimed element in the patent.

MR. SHIELLS: Yes, Your Honor.

THE COURT: I think everybody agrees on that law. What's unique is and I think what sets this case apart – and I'll come back to it later is – and I haven't seen a case raised by any party, so I'm off the reservation a little bit and probably can look at it and find out whether I'm supported or not – is you have got to show some evidence of an actual experiment during that time as to the claimed element.

And I think you know where I'm headed. There is no evidence in this record as to that issue.

By using your pleadings – and I think – and I have no – I'm not intending to be the Fifth Circuit and create another problem. The defined [24] element that you said had to be tested had to do with TCP/IP Internet testing under load. And I'll come back and address that in a minute.

There is a second contention that you raised in a later pleading as to being tested, and that – but I'm going to – and that has to do with this best execution rule.

Keep it – this ruling is in reference – as I understand, the claimed element to be the Internet transmission of the information. This ruling hangs on this; that that's what – I'm supposed to find some evidence that there was experiments as to . . .

Just so you know, say we have an e-mail in there that says we are changing the face on a dialogue box. That wasn't the problem that is described in the brief as what the testing had to be about. It had to do with sending information over the Internet.

I see some problems on appeal because that has to be drawn from several sources. It was taken as granted, but that's actually found, I think, in pages 25 through 32 of the motion – response to the motion for summary judgment.

All right. Now we get to the defendants' reply on 9-13-05, and I'll come back to it in a [25] minute.



The first contention is that experimental use is a question of law, I have rejected that. Experimental use is a question of fact, and I am ruling that the primary purpose is the question of law.

It says there is no competent evidence to contradict the unambiguous statement in the lease that it was for a commercial purpose. I'm going to reject that as – as being – that the statement in the lease somehow establishes as a matter of law that it was – that the primary purpose was for commercial use. It does establish – I have already found that it is for a commercial purpose, but it's not a trump card, as it's been played.

Third point was the lease, and this is in the contention of – the reply of – the Defendants' Reply to Plaintiff's Response to Joint Motion For Summary Judgment filed on September 13th; that the lease as a matter of law – establishes as a matter of law that the lease was for commercial purposes and not for experimental purposes.

The contention that the lease was for commercial purpose was never disputed by the plaintiffs. The proof as a matter of law does [26] establish a commercial purpose as a fact. The plaintiffs only raised that there was an experimental purpose, and then we have got to find out what the primary purpose is, or I have got to find after I hear the evidence and get all the undisputed facts – all the disputed facts resolved.

There was no evidence that Stark was aware of the experimental purpose. I'm going to come back and

address that and – when I rule on the evidence that was submitted.

The efforts to reduce it – reduce it to make it work over the Internet are legally irrelevant to the issue of experimental use because TEXCEN has been reduced to practice on the LAN, and the patented claims did not require the program to work on the Internet.

I am going to hold that is a correct reading of the claims, and that as a matter of law is correct, and that the patented claim does not require it to work over the Internet.

It's also admitted in the response that it did work over a Local Area Network. I'm going to come to it later, I think, but I'll probably come I'll just – I'm disturbed by this because there's only one point in the brief. I worry when I seize on [27] a point that the lawyers haven't always flushed out, but I'll just tell you that there's one cite in one of the defendants' pleadings to Column 15 or 19 where that LAN language appears in the specifications of the patent. And it was the specifications of the patent that, yes, it says the preferred embodiment is over a telephone line, the best mode.

But it also states very clearly in the patent application that it's not limited to over the telephone lines, and it includes a Local Area Network.

You are going to have plenty of opportunity. You may change my mind, but not today. Okay? You'll be

better off to shoot at the order once it's reduced than to shoot at it now. It will just distract me and prolong this agony.

But you never refuted the issue – it's never been addressed in your briefs why that specification language is not controlling, except your statement that it was inherent.

You raised in your response, Mr. Shiells, that the claims – that it was inherent within the claims. That's not the magic word language used in patents. You can help me now.

But you said it was inherent in the claims that it had to go over the Internet.

[28] MR. SHIELLS: It's a public communication network, Your Honor.

THE COURT: Right.

MR. SHIELLS: That requires it to be a common carrier, which precludes a LAN as a matter of technology.

THE COURT: Not by – in accordance with the specifications. And, unfortunately, you have probably stepped into a willingly-set trap on my part. There is a public communications network in this very courtroom, in this very courthouse, that is by LAN. And that is you can go into the District Clerk's office and sit down at a commuter [sic] and look at public records through a public computer and review them, and that is a public communication network.

Now, it's not evidence. I'm not going to rely upon that. I'm going to rely upon the language that was put in there by the patent attorney that very clearly says that their understanding of a public communications network is a LAN. So you will have to convince the Court of Appeals that the patent attorney was wrong when he wrote that.

And I get to that by looking at that *Theis* case that's raised later for me about the voice-activated – and I may have misspoken that – [29] voice-activated network.

The preferred embodiment in the specifications on that case was over the telephone, but it's clearly written in the specifications that if the patent was meant to apply to nontelephonic use, voice-activated responses.

So did I get that one right?

MR. WALKER: I believe so.

THE COURT: I believe so from the smile on your face.

All right. Well, you tried every which way to get these Adler notes in, you guys. I can't get there with them. Okay? I'm going to strike them as hearsay.

I'm telling you that if I try it, I'm going to have a problem on him being trustworthy, Randy. They don't identify the question, and they don't identify the answer. I'm not ruling that they are not trustworthy today, because I haven't seen the details on them.

Now, the later affidavits, I'm going to – I might as well go down and take care of those now, because they are raised later on Adler, because it makes sense to do so.

This is hard to do. All right. There is [30] a later tender – and I'm granting leave on every pleading that was filed after argument. Okay? It's all in. Nobody's got any problems with that. Everything you want in this record is going to be here. We are not going to cut anybody out because it didn't come in before the hearing. All right? Let's live with it as it is.

The 803A – You made an 8033 submission, and this is your rulings on your plaintiff's response to supplemental – to plaintiff's – plaintiff's response to supplemental objections. You filed this on October 21st, '05.

All right. You make a tender on Adler that – that Adler's statements are as to a statement of his – of the declarant's existing state of mind. It's – If the statements were made by Adler, they were made in 2001. They are not made in 1995.

And I'm going to come in later and tell you that the only evidence I really feel is relevant to the issue of experimental purpose is between the date of the lease and the date of the patent.

That's – Any other evidence gets weaker and weaker when you analyze it. There's an 8035 submission on Adler, and it's a recorded recollection. Well, it's not Adler's recollection. I mean, it's not [31]

Stark's recollection, its Adler's recollection of the – she made the notes, and its her recollection of Adler's statements of – of Stark's statements. Stark never made a recorded recollection.

You try to cure that with a later affidavit of September the 19th, 2005, and that's not good enough. He has to – he had to have done – he would have had to have done that at the time that the recollection was recorded.

In fact, when you read his September 9th affidavit, it's clear he doesn't recall it, and he is just saying – basically, he is saying that he thinks Adler recorded his notes correctly, but he has no present recollection in September of 2005 of what he said in May of 2001, so it's not admissible on that ground.

The 8036, it was regularly – it was a business record – it is a business record, but it is by Mrs. Adler's affidavit hearsay from start to finish, and it's hearsay within hearsay. It's just nothing more than Stark's statements. You can't even tell what the questioner asks, so I'm striking it.

And then, finally, I think you tried to offer it as an inconsistent statement, and that's based on the fact that Adler – I mean, that Stark [32] keeps issuing these affidavits at request.

But the way I analyze that is he would have had to made the statement under oath in 2001, and he didn't. And, otherwise, you can't use it as an inconsistent statement.



The Brasse affidavit is offered with the plaintiff's supplemental response and brief, and it's filed on October the 13th, '05.

I grant their objections made to the Brasse affidavit by the defendants, and I have got to find those. Maybe the easiest way for me to do that is just search for them instead of – I thought I had this a little bit easier to get through.

Exhibit 65, 66 – I'm going to grant the objections to the Brasse affidavit. The – But I'm also going to make one additional finding on it. I need to find it. I think I can find it with this search.

Okay. The defendants objected to the Brasse affidavit in the defendants' second supplemental objection of October the 2nd – October the 20th, 2005. And they objected to Brasse affidavit paragraphs 10, 14, and 15 on the basis that it was inadmissible hearsay made by a witness without knowledge of the facts stated and lacks foundation and [33] is speculative.

I'm going to grant all of those objections as to 10, 14, 15, and paragraph – paragraphs 10, 14, 15, and 19 of Brasses affidavit.

Am I saying that anywhere close to correctly, Bracy (phonetic)?

MR. TOBEY: Brassy (phonetic).

THE COURT: However, I don't think that quite covers the front, and in paragraph 19 there's a

statement made that Stark's words and actions during this period made it clear to me that at all times Stark was aware of the software – that the software was experimental and unsuitable for commercial use.

It's speculative in the sense that it speculates on Stark's awareness, but it is an observation of Stark's – of something about Stark's behavior. It is not fixed in time, it's conclusionary, and I think it's no evidence, is what it is.

And so I'm going to also rule that it's a conclusionary statement and that it's no evidence as to Stark's state of mind that he knew of experimental purposes. So I'm just going to add that to it.

I think you would face that on appeal if you didn't get it otherwise, Randy, because they would [34] raise it when you got up there to be – Gonzales wrote the decision you can raise conclusionary at the Court of Appeals level.

Would somebody put this timeline up on the – up on the board for me?

MR. WAITE: Your Honor, we may have an extra copy.

THE COURT: You don't have the one I have.

MR. WAITE: I'm sorry. Okay.

THE COURT: Can – all I did was – gentlemen, I was curious as to why the lease between

TEXCEN and R.M. Stark was different from the original lease, and it's not germane to my ruling, but it is – just was augmented on there.

In that lease TENCEN becomes the source for financial information, and the argument is Stark OLBS, online brokerage software, becomes where the executions are made, and I think that has to do with the no-action letter and the problems that were encountered.

Let me see if I can do a fairly concise and quick job on this no-evidence problem.

If you are – if you followed along so far, I have carved out Adler's affidavit, and I have [35] carved out sections of Brasse's affidavit by ruling on the objections, and so now I'm left, really, with the lease, the e-mails, some letters, some software assistance guides, and Mr. Minton's testimony on experimental use.

So if I made the rulings correctly on the affidavits, now, I have got to analyze this evidence under a no-evidence motion for summary judgment. It was – doesn't seem to me that the rule requires you to tell me why each one of them is not any evidence on the defendants side, but I was just left with that burden after we got there.

Now, first off, the ruling that the – the first ruling is before – after we get – the first ruling that the Court is going to make is, is that the claim limitation allowed – that Internet testing was not required under the claim limitation.

The first ruling I'm going to make in the motion for summary judgment is I'm going to find that as a matter of law that – that it wasn't required to test on the Internet in order to perfect the claim.

And, if you recall, I have already ruled that the claim – that what the plaintiff is claiming was – was a source of the experiment or the object of the experiment was the Internet transmission. So I [36] have tried to analyze all the evidence that was put forward by Mr. Shiells and by the plaintiff's counsel as to whether or not it was probative of Internet testing under load.

First off, you lose if I'm right about the claim limitation. The plaintiff loses if I'm right about the claim limitation. But if I'm wrong, I'm making this ruling so I can get a ruling from the Supreme Court.

I think y'all are probably as tired as I am, because it's pretty exhausting to get through this, but if I have defined the claim – if I have defined what they were testing about to be the Internet transmission, then I have got to look at the evidence and decide whether it's probative of Internet testing. And the question is when was the testing conducted?

I am going to hold that the testing must have been conducted on or before March 8th, 1995, through June 28th, 1996, is going to be the most relevant period. Now, the defendants are going to quibble and say – and say, Well, no, it's from March 8th, 1995, to March 8th, 1996.

And I understand that. But I'm giving the plaintiff some benefit on this one. But I don't [37] see testing after 1996 as relevant to whether there was testing from March – after March – for the first year after March 8th, 1995, or up until the time of patent.

Now, what I didn't understand from the defendants side and what the plaintiffs are going to feel like I have gone out and been an activist judge about is why didn't you argue that? There is no evidence of testing in this record over the Internet in that time period, none.

And that makes me a little bit uncomfortable in making this ruling, but, quite frankly, the only other way I can get it upstairs is just to – is just to rule on the LAN question, and then wait for it to come back and then see the case get developed again.

And I think I have got to look at the evidence. And I'm having a little trouble here, and I have been reading Keller over and over again on no-evidence points – City of Keller.

Don't you have – Mr. Shiells, don't you have to show that you actually performed an experiment during the one-year period?

MR. SHIELLS: Your Honor, he was continuously conducting experiments.

THE COURT: I meant – no, as an [38] abstract, not as an advocate. Just as a patent law, don't you have to show that there was an experiment?

MR. SHIELLS: No, Your Honor, actually not. You have to show it was in the experimental stage.

THE COURT: Did experimenting – did experimenting –

MR. SHIELLS: If it was incomplete, Your Honor, that is it required experimentation – you don't have to show that it required experimentation and it was done during that period. No, not at all, Your Honor.

But there was – in this case there was evidence there was experimentation conducted on those features from well before the time that the Stark lease was signed until way – continuously way past 1996 – between '95 and '96, from '96 to '97, and it was continuous.

THE COURT: Well, we are going to get to that, so let's see if we can walk through that.

I would like to see some – well, I'm not sure I will see a case that says that experimentation was – was not – is not necessary, only the need to experiment.

[39] Going to the question of whether or not there was experiments or not – and one of the points that – that is raised is does the invention reasonably require evaluation under actual use? Was the testing systematically performed? And did the – the inventor continually monitor the invention during testing?



Those are – and then, of course, there is points number – and these are under the response – points D-7, were records of the experiment kept, and D-8, who conducted the experiment.

What was offered is e-mails and some logs of telephone calls. And the e-mails were from February, 1998, forward, so they don't show experimentation in between '95 – March 8th, 1995, and March 8th, 1996. There is no evidence of that, e-mails themselves.

Now, there is an attempt in the affidavit of Minton where he says that those e-mails in '98 and '99 were representative of e-mails in 1995 and '96 and earlier. But they don't even – just representative doesn't give me any content. It's not even an unobjected to hearsay statement.

It doesn't say the same e-mails were sent, it says they are representative. So there was [40] just no evidence of what was said between '95 and '96 between Stark on one side and the other people on the other side. So the e-mails are not probative of any experiments being done.

Now, the other problem I have with e-mails is this: Not one single e-mail speaks of any TCP/IP problem over the Internet. The closest you come to them is one or two e-mails that speak to the download time that's been improved because you have gotten better hardware at one end.

Finally, I'm going to hold that expert testimony is required to show the issue of TCP/IP testing; that I do

not have sufficient lay knowledge to – and it's not a matter of common knowledge for a layperson to know about TCP/IP testing over the Internet.

And there being no expert testimony of any TCP/IP, there is no evidence competent to establish the need for testing or the actual testing.

Finally, it is with some concern that I have – and it's not to this – it's not germane to this ruling, but I do think it's worth noting that Mr. Minton testified in this litigation that – and it's cited – by the way, I'm cited to this text by the plaintiffs in one of their documents. It's the [41] text beginning at line – page 207 and going through 207, and it's about the Internet testing.

And in that he will testify that they never tested.

QUESTION: Page 212, deposition of – Exhibit 34A – deposition of Vernon Minton taken on – taken in this cause, line 25, page 212.

“Had you tested it using an Internet connection or TCP network by March of 1995? When did you first test that?

“ANSWER: We never did. We were never approved to test it.

“QUESTION: Did you write code to enable your systems to understand information that came over a TCP/IP network?

“Yes.”

"When was that code written?

"Probably in the beginning of 1996.

"Did you test the Internet network with dummy data?

"No.

"Why not?

"ANSWER: NASD would not allow Stark to even set up the network.

"QUESTION: Do you believe that your plan [42] to transmit data over the TCP/IP network would have worked?

"Yes.

"Do you believe – Do you have any belief it wouldn't work.

"No.

"And you knew – answer – "QUESTION: And you knew it would work as of the time you signed the lease with Stark in March of 1995?

"I believe it would work in the future, yes."

THE COURT: There's no testing by the – by Minton's definition. If this evidence had been offered to me, quite frankly, on a traditional motion for summary judgment, I might have made a different ruling, if I'm correct the testing – actual testing is required of – to prove experimental use.

Maybe only the need is there. But at this point what I have, Mr. Shiells, is I have a commercial lease on its face and no evidence of any testing. So what I have is a time limit running on commercial testing in a place of admission that there was no TCP/IP testing.

Now, let me talk about – I think that probably is indicative of my rulings and my analysis [43] on each one of the evidentiary points raised. The letters that were raised, the Stark letters, are 1997 letters that are offered to me as evidence. The – those are the Web browser and the later material on that.

You made an argument that the commercial lease price was unreasonably low, and that I would take an inference of that, that that is evidence of experimental purpose, and I'm going to reject that.

You have offered testimony of what the patent would have been worth had the patent been proved to be valid to show that the commercial lease price in 1995 was unreasonably low. And I'm going to hold that expert testimony is required to show what a willing party – willing parties would have paid for a lease in 1995, and that the expert witness report is taken as true.

I'm not quibbling with that. That its taken as true as to the patent value, but the patent value is not probative of a commercial lease of an unpatented software or process. So there is no evidence there.

What I find is I'm left with a February 28th, 1995, letter from Stark, which you have raised. And that's the only item prior to the date of [44] patenting that I can find in this record with any evidence of experimental purpose in the time periods that I have set as to the claim that I have defined.

So all those rulings are where we are. You may have me on ignoring something else, but that's where we are. And I find that that letter is too – is not anything more than a scintilla of evidence of experimental purpose, if it is that. Its less than a scintilla. Let me phrase it correctly. It does not establish a fact question as to experimental purpose.

Basically, what I have done is I have deemed that any evidence after 1996 is not probative of expert purpose in 1995 or that it would require inference upon inference that there was experimental purpose and experimental use during that period.

I reject the argument that the warranty – warranty in good and workmanlike manner is any evidence of experimental purpose, and I reject the other arguments made with regard to the commercial lease that there is any evidence of experimental purpose.

On the question of TISE becoming operational, there has been substantial – you make the argument that it must be implied that the software would be operational. I find that that lease [45] provision in itself does not – is not probative of an experimental purpose of the lease or of that issue.

I do note that – although I don't think I can – I just point out that there is – there is an offer that goes out in May of 1995 for funding of TISE to get it operational, but I'm not going to – I'm not going to rely on that. I'm just going to hold straight out and reject that contention as not being probative evidence.

There's some problems here, and one of them is, is that a whole lot of no evidence is still no evidence, and the Supreme Court has fairly clearly held that that you can have a bunch of scintillas – less than scintillas out there, and you can't get them together and there's no evidence.

You make the point, and I think it's valid, in my deliberations earlier that – or it was made in one of the responses that I must indulge every inference in favor of the plaintiff in ruling on this motion. And that had to do with my speculation about whether that was a commercial lease that went bad or it was an experimental purpose.

And I think all I want to bring to your attention at this time was – is that in the trial of this lawsuit, if I'm wrong about my ruling, I have [46] still got a problem of equal inferences; that we have a series of facts that occur some point after the lease, which either might infer, if you believe in one way, experimental purpose, or might infer commercial purpose on the other hand.

And I went back to read Lorantz – believe that's the correct case on it – on equal inferences, and I still



do not find that there is sufficient inference to infer experimental purpose based on any of the evidence that was offered for the relevant time period that we are involved in.

What I do see in the record – and I don't know that this helps you any – is that once you execute – once you get it defined and once you executed the second lease which puts the software under control of the broker, then its within six months of that, that you begin to see the e-mail traffic and fairly steady information.

There is one diary offered by Dickerson – a diary of phone calls. It may show contact, but it does not show content of contact; therefore, its no evidence that contact was for experimental purposes.

I'm sure I missed something, but that's my ruling. Maybe I should take a stab at reducing it [47] to writing, if you can ever get it out of me.

MR. JOHNSTON: Without commenting on the latter –

THE COURT: Yeah, I know.

MR. JOHNSTON: – I was going to request that the Court impose a date on the defendants to submit a proposed order. The 60, 90 days suggested by the Court really puts us almost at the two-year anniversary of the filing of this case.

It was filed August of '04, and there's a lot of reasons, not just this court's delay in ruling on the

motion, that brings us to this day, but we are anxious to move it forward just as quickly as we can, so . . .

THE COURT: Well, here's what I'm worried about – let's just go into conference. If anybody wants as record – at this point, I'm finished. I guess we'll just keep you here – conversation.

Do you want to talk about the problems with drawing this order for me? Can you address them now? Is it too confusing to draw?

MR. KELTNER: Can you give me a minute?

THE COURT: Yeah. Give you five minutes. I'm tired after talking that hard.

(Proceedings adjourned at 3:20 p.m.)

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NO. 048 207288 04

|                                    |   |                        |
|------------------------------------|---|------------------------|
| <b>VERNON F. MINTON,</b>           | § | <b>IN THE DISTRICT</b> |
| <b>Plaintiff,</b>                  | § | <b>COURT OF</b>        |
|                                    | § |                        |
| <b>V.</b>                          | § |                        |
|                                    | § |                        |
| <b>JERRY W. GUNN,</b>              | § |                        |
| <b>Individually, THE REAUD</b>     | § |                        |
| <b>LAW FIRM, a Professional</b>    | § |                        |
| <b>Corporation, GEORGE</b>         | § |                        |
| <b>MICHAEL JAMAIL,</b>             | § |                        |
| <b>Individually, WILLIAMS</b>      | § | <b>TARRANT</b>         |
| <b>SQUIRE &amp; WREN, LLP,</b>     | § | <b>COUNTY, TEXAS</b>   |
| <b>JAMES E. WREN,</b>              | § |                        |
| <b>Individually, SLUSSER &amp;</b> | § |                        |
| <b>FROST, L.L.P., WILLIAM</b>      | § |                        |
| <b>C. SLUSSER, Individually,</b>   | § |                        |
| <b>SLUSSER WILSON</b>              | § |                        |
| <b>&amp; PARTRIDGE LLP,</b>        | § |                        |
| <b>MICHAEL E. WILSON,</b>          | § |                        |
| <b>Individually, and LAW</b>       | § |                        |
| <b>OFFICES OF KEITH</b>            | § |                        |
| <b>KEBODEAUX,</b>                  | § | <b>48th JUDICIAL</b>   |
| <b>Defendants.</b>                 | § | <b>DISTRICT</b>        |

**ORDER**

The Court has considered Defendants' Joint Motion for Summary Judgment (the "Motion") filed on June 30, 2005 by Defendants Jerry W. Gunn, William C. Slusser, Michael E. Wilson, Slusser & Frost, L.L.P., Slusser Wilson & Partridge L.L.P., James E. Wren and William Squire & Wren, LLP (collectively "Defendants"), all responses thereto filed

by Plaintiff Vernon F. Minton ("Plaintiff"), and all supplemental filings of the parties related to the Motion as identified herein. This Order confirms the Court's rulings on the Motion and all related filings.

The Court has considered the entire summary judgment record. The summary judgment record, before any rulings as to certain evidentiary objections lodged by the parties, consists of the following filings:

- Defendants' Joint Motion for Summary Judgment, filed on June 30, 2005;
- Unopposed Motion to File Exhibit D-1 to Defendants' Motion for Summary Judgment Under Seal, filed on June 30, 2005;
- Order Granting Unopposed Motion to File Exhibit D-1 to Defendants' Motion for Summary Judgment Under Seal, filed on July 7, 2005;
- Defendants' Supplemental Brief in Support of Joint Motion for Summary Judgment, filed on August 8, 2005;
- Plaintiff's Response and Brief in Opposition to Defendants' Joint Motion for Summary Judgment, filed on September 13, 2005;
- Defendants' Objections to Plaintiff's Summary Judgment Evidence, filed on September 13, 2005;
- Defendants' Reply to Plaintiff's Response to Joint Motion for Summary Judgment, filed on September 13, 2005;

- Plaintiff's Supplemental Response and Brief in Opposition to Defendants' Joint Motion for Summary Judgment, filed on October 12, 2005;
- Defendants' Supplement to Their Objections to Plaintiff's Summary Judgment Evidence, filed on October 12, 2005;
- Defendants' Post-Hearing Brief in Support of Joint Motion for Summary Judgment, filed on October 12, 2005;
- Defendants' Second Supplement to Their Objections to Plaintiff's Summary Judgment Evidence, filed on October 20, 2005;
- Plaintiff's Opposition to Defendants' Supplement to Their Objections to Plaintiffs Summary Judgment Evidence, filed on October 21, 2005; and
- Plaintiff's Opposition to Defendants' Post-Hearing Brief in Support of Joint Motion for Summary Judgment, filed on October 21, 2005.

Each of the above filings was reviewed and considered by the Court in issuing this Order, and all evidence submitted as part of the above filings is part of the summary judgment record in the case, except such evidence that is expressly stricken in this Order. To the extent that any of the above filings were not timely filed, or otherwise were subject to potential objections for timeliness, leave is hereby GRANTED to allow each of the filings to be a part of the summary

judgment record in the case, before any rulings as to any evidentiary grounds.

Based upon the Court's review of the Motion and the full summary judgment record, the Court enters the following findings and rulings:

1. The Court finds that the question of whether an offer for sale or lease of a patented item has a commercial purpose is a question of fact. The Court finds that the question of whether an offer for sale or lease of a patented item has an experimental purpose is a question of fact. However, the Court finds that the question of whether an offer for sale or lease of a patented item is primarily for the purpose of experimentation or commercialization is a question of law.
2. The Court GRANTS the Motion's traditional summary judgment request that there was a commercial purpose to the March 8, 1995 TEXCEN lease at issue.
3. The Court DENIES the Motion's traditional summary judgment request that the March 8, 1995 TEXCEN lease at issue be found as a matter of law not to have had an experimental purpose. The Court finds that the evidence presented by Defendants on the traditional motion for summary judgment does not negate the existence of experimental use as a matter of law.



4. The Court GRANTS the Motion's no-evidence summary judgment request that Plaintiff's claims against Defendants set forth in Plaintiff's Original Petition (filed August 25, 2004) be dismissed. The Court finds that Plaintiff has proffered no evidence to support his claims that any alleged act or omission of Defendants caused or contributed to any alleged damages. This ruling is based on the following findings:
  - a. First, the Court finds that Plaintiff's claim of an alleged experimental purpose for the March 8, 1995 TEXCEN lease must relate to a claimed element of the '643 patent. Plaintiff claimed that the defined element that was tested had to do with TCPIP or Internet testing under load. The Court holds, however, that as a matter of law the claims of the '643 patent do not require that the program work over a TCPIP or Internet connection. Therefore, any evidence of testing or experimenting over a TCPIP or Internet connection is legally irrelevant to support the purported experimental purpose of the March 8, 1995 TEXCEN lease.
  - b. Second, assuming that Plaintiff's theory that testing relating to a TCPIP or Internet transmission of data is relevant, the Court finds that Plaintiff does not raise a genuine issue of material fact to support his claims of experimental use. The Court has considered the entire

summary judgment record proffered by Plaintiff and finds that it is less than a scintilla of proof of experimental use. As to this evidence proffered by Plaintiff, the Court finds as follows:

- i. The Court SUSTAINS Defendants' objections to the attachments to the Ellen Adler Affidavit (Plaintiff's proffered exhibits 32a, 32b, 39 and 40) and paragraphs 10, 14, 15, and 19 of the Martin Brasse Affidavit (Plaintiff's proffered exhibit 64), and GRANTS Defendants' motion to strike this evidence. The Court further finds that paragraph 19 of the Martin Brasse Affidavit is speculative and conclusory and therefore is no evidence. The above-cited evidence is hereby stricken from the summary judgment record.
- ii. The Court finds that any relevant evidence of purported experimental purpose must be limited to the period up to and including June 28, 1996, the date of the '643 patent application.
- iii. The Court has carefully reviewed the entire summary judgment record proffered by Plaintiff to support his claims that fall in the relevant time period identified above. The Court finds that none of this purported evidence rises to the level of

a scintilla of proof, and that Plaintiff has no evidence to support his claims.

- iv. The Court further finds that, if experimentation of TCPIP or Internet transmission of data is a legal basis upon which to base a claim of experimental use, evidence supporting such a claim must be supported by qualified and admissible expert testimony. Here, Plaintiff has proffered no qualified and admissible expert proof to support this theory, which is further support for the Court's finding that no evidence supports Plaintiff's claims.
5. This summary judgment disposes of all claims of Plaintiff, other than the claims asserted in ¶18 of Plaintiff's First Amended Petition, filed on October 10, 2005, after Defendants' Motion had been filed. The Court hereby GRANTS leave to Plaintiff to file Plaintiff's First Amended Petition. As Defendants' Motion did not address the claims asserted in ¶18, this Order does not dispose of this claim. However, the Court will consider any motion for summary judgment, or other appropriate motion, if any, the Defendants elect to file as to this claim.
6. Leave of Court is required before any party may file an amended petition, answer or motion for summary judgment [except leave is not required to file a dispositive motion as to

paragraph 18 of Plaintiff's First Amendment  
Petition [DE]

7. All relief not addressed in this Order is hereby DENIED.

SIGNED this 19th day of September, 2006.

/s/ David Evans

HON. DAVID EVANS,  
PRESIDING JUDGE

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NO. 048-207288-04

|                           |   |                 |
|---------------------------|---|-----------------|
| VERNON F. MINTON,         | § | IN THE DISTRICT |
| Plaintiff                 | § | COURT OF        |
|                           | § |                 |
| v.                        | § |                 |
| JERRY W. GUNN,            | § |                 |
| Individually, THE REAUD   | § |                 |
| LAW FIRM, a Professional  | § |                 |
| Corporation, GEORGE       | § |                 |
| MICHAEL JAMAIL,           | § |                 |
| Individually, WILLIAMS    | § | TARRANT         |
| SQUIRE & WREN, LLP,       | § | COUNTY, TEXAS   |
| JAMES E. WREN,            | § |                 |
| Individually, SLUSSER &   | § |                 |
| FROST, L.L.P., WILLIAM    | § |                 |
| C. SLUSSER, Individually, | § |                 |
| SLUSSER WILSON            | § |                 |
| & PARTRIDGE LLP,          | § |                 |
| MICHAEL E. WILSON,        | § |                 |
| Individually, and LAW     | § |                 |
| OFFICES OF KEITH          | § |                 |
| KEBODEAUX,                | § | 48TH JUDICIAL   |
| Defendants                | § | DISTRICT        |

**ORDER GRANTING DEFENDANTS' SECOND  
JOINT MOTION FOR SUMMARY JUDGMENT**

ON THE below signed date came on to be considered Defendants' Second Joint Motion for Summary Judgment (the "Second Motion"), and the Court after reviewing the Second Motion and the Response thereto finds that the Court's Order granting Defendants' Joint Motion for Summary Judgment signed on

September 19, 2006 is dispositive of the Second Motion, and that the Second Motion should be granted as a result.

**IT IS, THEREFORE, ORDERED, ADJUDGED AND DECREED** that Defendants' Second Joint Motion for Summary Judgment is granted.

**SIGNED** this 3rd day of November, 2006.

/s/ David Evans

**JUDGE PRESIDING**

[This is not a final judgment. DE]

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NO. 048-207288-04

|                           |   |                 |
|---------------------------|---|-----------------|
| VERNON F. MINTON,         | § | IN THE DISTRICT |
| Plaintiff                 | § | COURT OF        |
|                           | § |                 |
| v.                        | § |                 |
| JERRY W. GUNN,            | § |                 |
| Individually, THE REAUD   | § |                 |
| LAW FIRM, a Professional  | § |                 |
| Corporation, GEORGE       | § |                 |
| MICHAEL JAMAIL,           | § |                 |
| Individually, WILLIAMS    | § | TARRANT         |
| SQUIRE & WREN, LLP,       | § | COUNTY, TEXAS   |
| JAMES E. WREN,            | § |                 |
| Individually, SLUSSER &   | § |                 |
| FROST, L.L.P., WILLIAM    | § |                 |
| C. SLUSSER, Individually, | § |                 |
| SLUSSER WILSON            | § |                 |
| & PARTRIDGE LLP,          | § |                 |
| MICHAEL E. WILSON,        | § |                 |
| Individually, and LAW     | § |                 |
| OFFICES OF KEITH          | § |                 |
| KEBODEAUX,                | § | 48TH JUDICIAL   |
| Defendants                | § | DISTRICT        |

### **FINAL JUDGMENT**

On September 19, 2006 the Court signed an Order granting Defendants' Joint Motion for Summary Judgment in favor of Defendants Jerry W. Gunn; William C. Slusser; Michael E. Wilson; Slusser & Frost, L.L.P.; Slusser Wilson & Partridge L.L.P.; James E. Wren and Williams Squire & Wren, LLP and against Plaintiff Vernon Minton.

On November 3, 2006 the Court signed an Order granting Defendants' Second Joint Motion for Summary Judgment in favor of Defendants Jerry W. Gunn; William C. Slusser; Michael E. Wilson; Slusser & Frost, L.L.P.; Slusser Wilson & Partridge L.L.P.; James E. Wren and Williams Squire & Wren, LLP and against Plaintiff Vernon Minton.

Based on the summary judgments heretofore granted by the Court in favor of Defendants, the Court hereby renders judgment as follows:

It is **ORDERED, ADJUDGED AND DECREED** that Plaintiff take nothing on his claims asserted in this action and they are dismissed with prejudice.

All costs are assessed against the parties incurring same.

All relief requested in this case and not expressly granted by this Final Judgment is denied.

This Final Judgment disposes of all claims and all parties to this suit. It is therefore final, appealable, and disposes of this case in its entirety.

**SIGNED** this 27th day of November, 2006.

/s/ David Evans

**HON. DAVID EVANS,  
PRESIDING JUDGE**

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**Supreme Court of the United States  
Office of the Clerk  
Washington, DC 20543-0001**

**William K. Suter**  
Clerk of the Court  
(202) 479-3011

October 5, 2012

Ms. Jane M. N. Webre  
Scott, Douglass & McConnico, L.L.P.  
600 Congress Avenue, Suite 1500  
Austin, TX 78701

Re: Jerry W. Gunn, et al.  
v. Vernon F. Minton  
No. 11-1118

Dear Ms. Webre:

The Court today entered the following order in  
the above-entitled case:

The petition for a writ of certiorari is granted.

Sincerely,

/s/ William K. Suter  
**William K. Suter**, Clerk

---

No. 11-1118

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**In The  
Supreme Court of the United States**

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JERRY W. GUNN, INDIVIDUALLY, WILLIAMS SQUIRE & WREN, L.L.P.,  
JAMES E. WREN, INDIVIDUALLY, SLUSSER & FROST, L.L.P., WILLIAM  
C. SLUSSER, INDIVIDUALLY, SLUSSER WILSON & PARTRIDGE, L.L.P.,  
AND MICHAEL E. WILSON, INDIVIDUALLY,

*Petitioners,*

v.

VERNON F. MINTON

*Respondent.*

---

**On Writ Of Certiorari To The  
Supreme Court Of Texas**

---

**SUPPLEMENT TO THE JOINT APPENDIX**

---

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**Petition For Writ Of Certiorari Filed March 9, 2012  
Certiorari Granted October 5, 2012**

---

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## INDEX TO SUPPLEMENT TO THE JOINT APPENDIX

Page

|                                                                                                                                                                                                               |            |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| Patent 6,014,643, which is Exhibit A of Plaintiff's First Amended Complaint, which is itself Exhibit A of Plaintiff's Original Petition, filed August 25, 2004, District Court of Tarrant County, Texas ..... | JA Supp. 1 |
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# EXHIBIT A



US006014643A

United States Patent (19)  
Milton

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(45) Date of Patent: Jan. 11, 2000

(54) INTERACTIVE SECURITIES TRADING SYSTEM

(76) Inventor: Vernon F. Milton, Canterbury Ck., Fort Worth, Tex. 76112

(21) Appl. No.: 08/783,133

(22) Filed: Aug. 24, 1996

## Related U.S. Application Data

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(51) Int. Cl. G06F 17/00

(52) U.S. Cl. 705/37; 705/26; 705/36; 705/38; 705/40

(58) Field of Search 705/37, 38, 26, 705/40, 36

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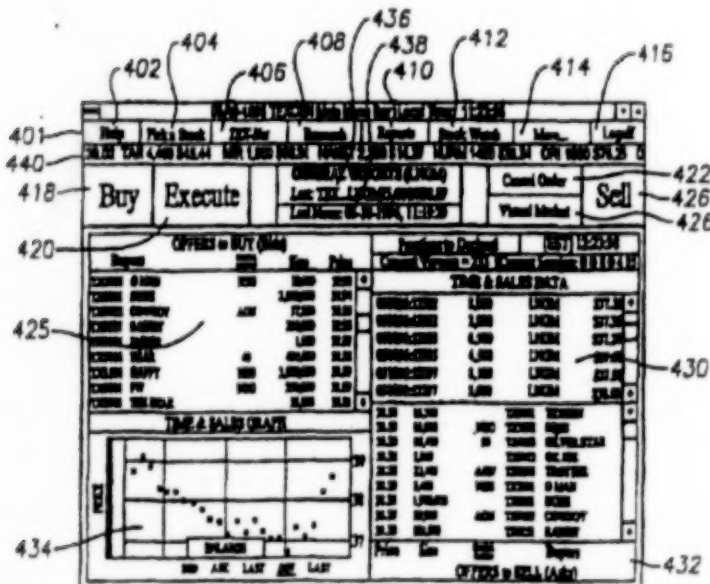
Securities and Exchange Commission (SEC) Proposed Rules/Federal Register/vol. 60, No. 195/Release No. 34-36310, Oct. 10, 1995.

Primary Examiner—Allen R. MacDonald  
Assistant Examiner—Romaine Jeanty  
Attorney, Agent, or Firm—James E. Bradley

## (57) ABSTRACT

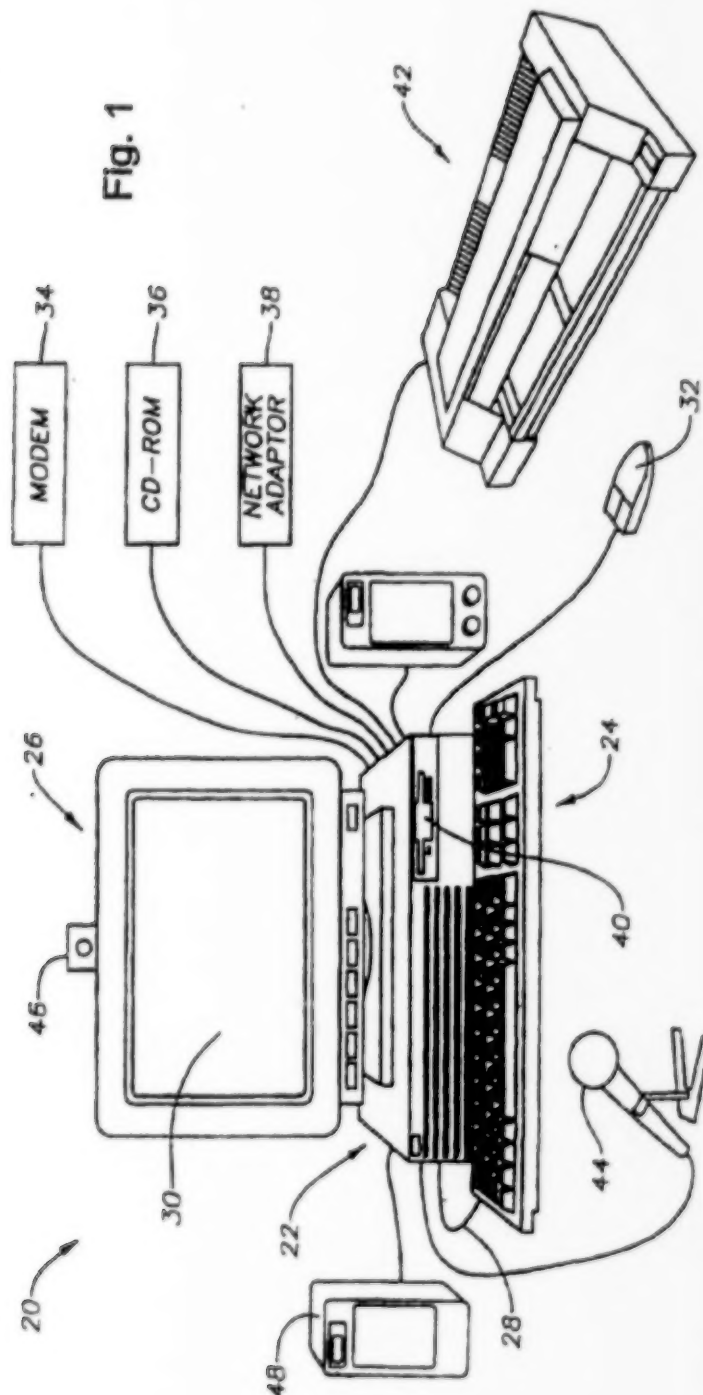
A first individual enters an offer to sell a security on a first data processing system. This offer is sent to a server over a communication network which is available to the public. From the server, the offer is transmitted to additional data processing systems which are connected to the publicly-available communication network. The first user's offer is eventually sent to a second data processing system, where a second individual enters an acceptance to the first user's offer to sell a security. This second user's acceptance is then transmitted back to the server over the publicly-available communication network. Upon the arrival of the acceptance, an account belonging to the second user is debited for the amount of the security just purchased, and the second user obtains title to the securities.

4 Claims, 7 Drawing Sheets



400

Fig. 1



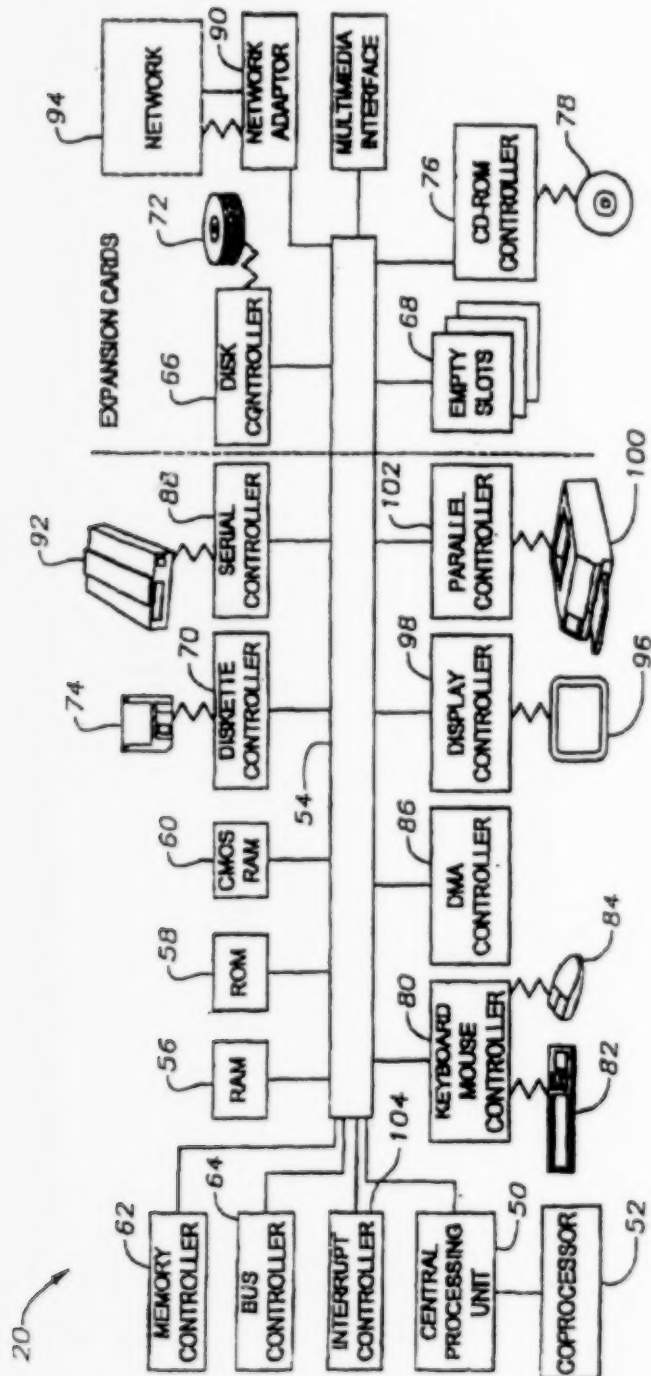


Fig. 2

Fig. 3

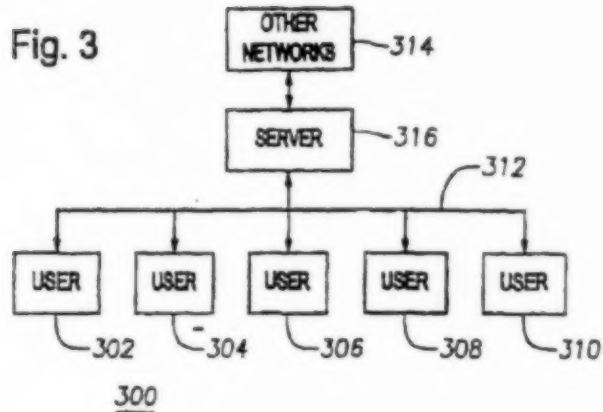


Fig. 4

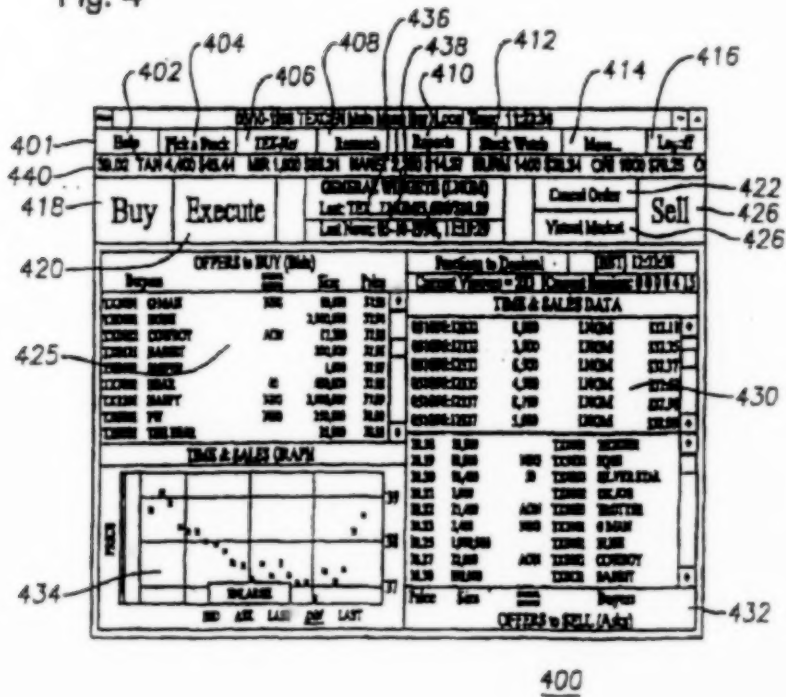


Fig. 5

Select a market whose securities are:

Traded in U.S. dollars ☐

518 28 Current RMST Markets

Type in the securities name or symbol, then Click on your Quotes in the list below.

Name: 514 COMPANY I Symbol: 510 USCI

| Name/Security | Symbol | Market | RMST | Only Under | Company |
|---------------|--------|--------|------|------------|---------|
| COMPANY 1     | USCI   | US     | YES  | DISPATCH   | USD     |
| COMPANY 2     | USCI   | US     | YES  | DISPATCH   | USD     |
| COMPANY 3     | USCI   | US     | YES  | DISPATCH   | USD     |
| COMPANY 4     | USCI   | LOW    | YES  | DISPATCH   | USD     |
| COMPANY 5     | USCI   | US     | YES  | DISPATCH   | USD     |
| COMPANY 6     | USCI   | US     | YES  | DISPATCH   | USD     |

512

Help 502 Quotes 504 Trade Screen 506 Close 508

500

Fig. 6

Buy: ☒ to Open ☐ to Close ☐ Markets

612 GENERAL WIDGETS

614 JOHN DOE E758747284743

616

Offer to Buy

Quantity: 620 100

Limit Price: 622 100.10

Minimum: 624 10

Short Position Last Position

626 None

Expiration of Order

☒ Good if Canceled ☐ 24 Hours ☐ Other Date: 628 05-13-1996

Special Order

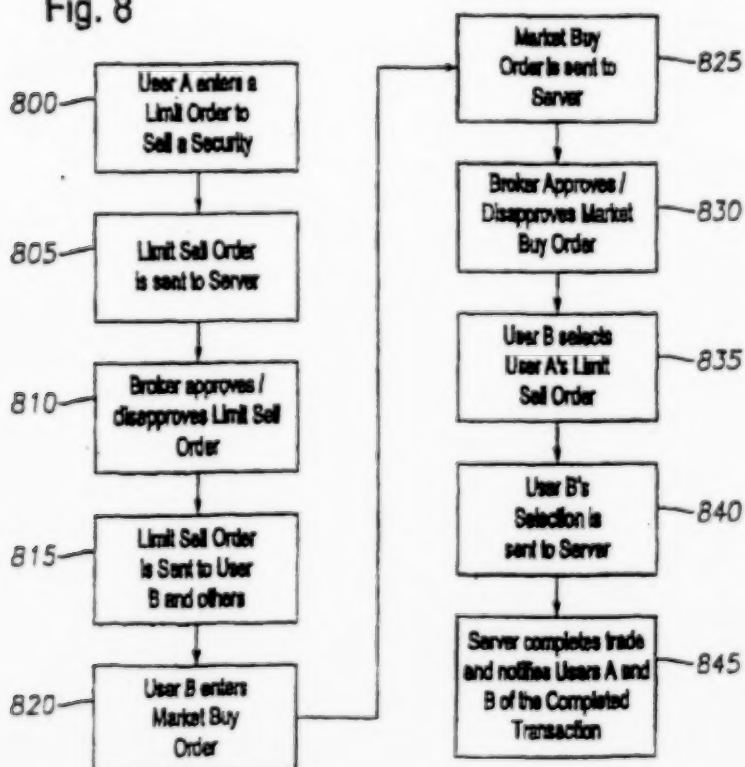
☐ Do not Reduce ☐ Negotiate ☒ RMST Only 610 ☐ All or None

Help 602 RMST Market 604 Enter Limit Order 606 Cancel 608

600

Fig. 7

Fig. 8





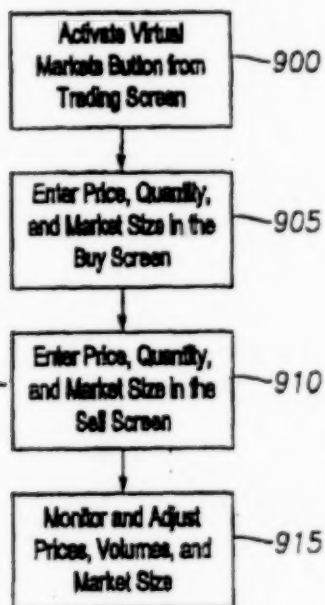


Fig. 9

1010

1012

Buy: ☐ to Open ☐ to Close ☒ Markets

1006 Offer to Buy

1004 Quantity: 1,000

1002 Limit Price: \$38.00

Minimum: 1,000

Short Position Last Selection: None

Expiration of Order: ☒ Good til Canceled ☐ 24 Hours ☐ Other Date: 05-13-1996

Special Orders: ☐ Do not Reduce ☐ Negotiate ☒ RMST Only ☐ All or None

Help RMST Market Virtual Market Cancel

1008

1000

Fig. 10

1110

Sell: ☐ to Close ☐ Short to Open ☐ Short Against the Box ☒ Markets

1106 Offer to Sell

1104 Quantity: 1,000

1102 Limit Price: \$38.01

Minimum: 1,000

Long Position Lot Selection

Select Position

Advertising Agent Available (800) 555-5555

Expiration of Order

☒ Good til Canceled ☐ 24 Hours ☐ Other Date: 05-13-1996

Special Order

☐ Do not Reduce ☐ Negotiate ☒ RMST Only ☐ All or None

Help RMST Market Virtual Market Cancel

Fig. 11

1100

1208

1210

1212

1214

1228 Last Trade = 8400

1226 Position = SHORT 500

1224 Basis / Share = \$37.89400

1222 Profit (Loss) = \$143.00

1220 TRADE REPORT

Other Markets

1218 Monitor Markets

Vol Bid Mkt Ask Vol

1216

1206

1204

1202

Fig. 12

1200

# 1 INTERACTIVE SECURITIES TRADING SYSTEM

This application claims benefit of Provisional Application 60/020,865, filed Jan. 28, 1996.

## BACKGROUND OF INVENTION

### 1. Technical Field

The present invention relates generally to data processing systems and networks of data processing systems, and more specifically to systems which allow individuals to trade securities directly with other individuals who are not brokers, specialist or market makers.

### 2. Description of the Related Art

For hundreds of years, institutions have existed which allow people to buy and sell securities (e.g., stocks, futures, options, commodities, etc.) from one another. Today, examples of these institutions are: The New York Stock Exchange (NYSE), The National Association of Security Dealers Automated Quotation (NASDAQ) System, and The American Stock Exchange (AMEX). These modern security exchanges facilitate the exchange of several hundred million shares of stock every business day.

While a significant portion of this trading is initiated by individuals, either directly or indirectly, these individuals cannot trade securities directly on the above mentioned exchanges. If a user wishes to buy or sell stock or other securities, they must go through a brokerage firm or a stock broker. These brokers are the ones who actually execute a customer's order to buy or sell a security.

There are two primary ways brokers generate income from executing customer orders. First, brokers often charge a commission for executing a customer's order. Depending on the broker, this commission may vary with the number of shares traded. For example, a broker may charge a base rate of \$50.00 to execute a trade, plus an additional 5 cents per share for every share traded. There is nothing secretive about the commission a broker charges, and customers are familiar with the commissions charged by their brokers.

A second way brokers derive income from customers is by taking advantage of the difference between the selling (ask) price and the buying (bid) price of a security. Unlike most consumer items, securities are often listed at two prices: a first price if one is buying the security, and a second price if one is selling the security. The selling price is known as the ask price and the buying price is known as the bid price. For example, if a user asks Broker A for the price of a share of stock from ABC Company, the broker may tell the customer that a share of ABC stock can be bought for \$50.50, and a share of ABC stock may be sold for \$50.10. The bid and ask price are not numbers set by a single entity or government agency, rather, these numbers are generated by a broker and constantly fluctuate as the price of a security moves up or down. The difference between the bid price and the ask price is known as the spread.

A broker can make money on the spread by connecting customers who want to sell a security at a relatively low price with other customers who wish to buy a security at a relatively high price. Due to the advanced nature of today's communications systems, a broker is in constant contact with many other brokers and institutions which buy and sell securities. These other brokers and institutions are constantly communicating to a given broker various offers to buy and sell securities, at a range of prices.

As stated above, a broker can make money from executing a customer's order by connecting two customers who are

2  
willing to pay different amounts for the same security. For instance, Customer A goes to Broker B and informs Broker B that he wishes to buy one hundred shares of ABC stock for \$50.00. Broker B can then log into his communications network to see what other brokers and institutions are charging for one hundred shares of ABC. Broker B may find another broker willing to sell one hundred shares of ABC for \$49.50. In this instance, Broker B will, on behalf of Customer A, buy one hundred shares of ABC for the price of \$49.50. However, Customer A will be charged \$50.00 per share for the stock that Broker B bought for \$49.50 per share. Thus, Broker B will be able to keep 50 cents per share, or \$50.00 for the one hundred shares of ABC purchased. This type of profit making is allowed to happen, despite the many regulations that brokers operate under. This same situation repeats itself when a broker finds another user willing to pay a higher price than what a given seller is asking.

The above situation repeats itself many times a day, and creates substantial revenues for commodity and stock brokers. Further, a customer has no way to protect himself from this type of exploitation, since customers do not have access to the communications networks of the broker. Also, customers often do not realize a broker is making money from them in this fashion.

Another advantage brokers enjoy over consumers is that they can make markets in a given security. Making a market in a given security refers to the situation where a broker is simultaneously buying and selling the same security at slightly different prices. Brokers can make markets by being connected to many other brokers and institutions. A broker generates income by making markets because he can sell a security for a slightly higher price than he buy the same security. If a broker can repeatedly sell a given security for 50 cents more than he buys it, this broker can continue the process and generate income by taking advantage of the fact that he can sell a security for more than he can buy it.

Individuals are unable to make markets in securities because they do not have access to the large communications networks that brokers have access to. To effectively make a market, one must be able to communicate with many potential buyers and sellers of the security in which one wishes to make a market. This ability is easily accomplished by brokers, but, as stated above, individuals do not have access to the resources needed to make markets.

Therefore, what is needed is a data processing system and a network of data processing systems whereby individuals can buy and sell directly from each other, with only minimal involvement by a broker. In such a communications network as individual would be in a similar position to that of a broker, i.e., as individual would have access to many other individuals wishing to buy and sell securities. In such a network, an individual would be able to select among many competing offers to buy and sell, and thus would be able to get a better deal than if they were going through a broker. Also, such a network would allow individuals to make markets in the securities they wish.

## SUMMARY OF THE INVENTION

It is therefore an object of the present invention to provide a data processing system, and a network of data processing systems for allowing individuals to buy and sell securities directly from other individuals, with only minimal oversight by a broker.

It is yet another objective of the present invention to provide individuals with the ability to make markets in the security of their choosing.

These objectives and others are achieved by providing a plurality of data processing systems connected by a communications network. Initially, a first individual enters an offer to sell a security on a first data processing system. This offer is sent to a server over the communication network which is available to the public. From the server, the offer is transmitted to additional data processing systems which are connected to the communication network. The first user's offer is eventually sent to a second data processing system, where a second individual enters an acceptance to the first user's offer to sell a security. This second user's acceptance is then transmitted back to the server over the communication network. Upon the arrival of the acceptance, an account belonging to the second user is debited for the amount of the security just purchased, and the second user obtains title to the securities.

The above as well as additional objects, features, and advantages of the present invention will become apparent in the following detailed written description.

#### BRIEF DESCRIPTION OF THE DRAWINGS

The novel features believed characteristic of the invention are set forth in the appended claims. The invention itself, however, as well as a preferred mode of use, further objects and advantages thereof, will best be understood by reference to the following detailed description of an illustrative embodiment when read in conjunction with the accompanying drawings, wherein:

FIG. 1 depicts a data processing system in accordance with the method and system of the present invention;

FIG. 2 is a more detailed high-level block diagram which further illustrates the major components of the data processing system of FIG. 1;

FIG. 3 illustrates a block diagram of the individual securities trading network according to the present invention;

FIG. 4 illustrates the trading screen of the program controlling a user's data processing system according to the present invention;

FIG. 5 depicts the screen where a user can specify the security about which they wish to receive pricing information;

FIG. 6 illustrates the screen where information relating to an order to buy a security is entered;

FIG. 7 depicts the screen where information relating to an order to sell a security is entered;

FIG. 8 illustrates the process flow by which two users connected to the trading network may buy and sell securities from each other;

FIG. 9 depicts the process by which a user can create a market in a given security;

FIG. 10 illustrates the buy screen which is displayed when the user is creating a market in a particular security;

FIG. 11 depicts the sell screen which is displayed when the user is creating a market in a particular security; and

FIG. 12 illustrates a portion of the trading screen displayed when a user is making a market in a particular security.

#### DETAILED DESCRIPTION OF THE PREFERRED EMBODIMENT

FIG. 1 depicts data processing system 20. Data processing system 20 is capable of executing the computer program which allows users to buy and sell securities from other

users over an individual security trading network. (The individual security trading network will be discussed in a subsequent portion of this specification.) Data processing system 20 can be the data processing system from which a user can buy and sell securities from other users attached to the individual security trading network; or it can function as a server for the individual security trading network. Generally, when functioning as a server, data processing system 20 will have more processing power, storage capability, memory, etc. than when it is functioning as a user's data processing system.

Data processing system 20 includes processor 22, keyboard 24, and display 26. Keyboard 24 is coupled to processor 22 by a cable 28. Display 26 includes display screen 30, which may be implemented utilizing a cathode ray tube (CRT), a liquid crystal display (LCD), an electro-luminescent panel, or the like. Data processing system 20 also includes pointing device 32, which may be implemented utilizing a track ball, joystick touch sensitive tablet or screen, trackpad, or as illustrated in FIG. 1, a mouse. Pointing device 32 may be utilized to move a pointer or cursor on display screen 30. Processor 22 may also be coupled to one or more peripheral devices, such as modem 34, CD-ROM 36, network adapter 38 and floppy disk drive 40, each of which may be internal or external to the enclosure of processor 22. An output device such as printer 42 may also be coupled to processor 22. Speakers 44, camera 46, and microphone 48 are provided for multimedia applications.

Those versed skilled in the art of data processing system design should recognize that display 26, keyboard 24, and pointing device 32 may each be implemented utilizing any one of several known off-the-shelf components. Data processing system 20 may be implemented utilizing any general purpose computer or so-called personal computer.

With reference now to FIG. 2, there is depicted a high-level block diagram which further illustrates the major components that may be included in data processing system 20 of FIG. 1. Data processing system 20 is controlled primarily by computer readable instructions, which may be in the form of software, wherever, or by whatever means such software is stored or accessed. Such software may be executed within central processing unit (CPU) 50 to cause data processing system 20 to do work. In many known workstations and personal computers central processing unit 50 is implemented by a single-chip CPU called a microprocessor. Examples of such microprocessors include the microprocessor sold under the trademark "PENTIUM" by Intel Corporation and the microprocessor sold under the trademark "PowerPC" by International Business Machines Corporation.

Coprocessor 52 is an optional processor, distinct from main CPU 50, that performs additional functions or assists CPU 50. One common type of coprocessor is the floating-point coprocessor, also called a numeric or math coprocessor, which is designed to perform numeric calculations faster and better than general-purpose CPU 50. Recently, however, the functions of many coprocessors have been incorporated into more powerful single-chip microprocessors.

CPU 50 fetches, decodes, and executes instructions, and transfers information to and from other resources via the computer's main data-transfer path, system bus 54. Such a system bus connects the components in data processing system 20 and defines the medium for data exchange. System bus 54 typically includes data lines for sending data,

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address lines for sending addresses, and control lines for sending interrupts and for operating the system bus. An example of such a system bus is the PCI (Peripheral Component Interconnect) bus. Some of today's advanced buses provide a function called bus arbitration that regulates access to the bus by expansion cards, controllers, and CPU 50. Devices that attach to these buses and arbitrate to take over the bus are called bus masters. Bus master support also allows multiprocessor configurations of the buses to be created by the addition of bus master adapters containing a processor and its support chips.

Memory devices coupled to system bus 54 include random access memory (RAM) 56, read only memory (ROM) 58, and nonvolatile memory 60. Such memories include circuitry that allows information to be stored and retrieved. ROMs contain stored data that cannot be modified. Data stored in RAM can be read or changed by CPU 50 or other hardware devices. Nonvolatile memory is memory that does not lose data when power is removed from it. Nonvolatile memories include ROM, EPROM, flash memory, bubble memory, or battery-backed CMOS RAM. As shown in FIG. 2, such battery-backed CMOS RAM may be utilized to store system configuration information.

Access to RAM 56, ROM 58, and nonvolatile memory 60 may be controlled by memory controller 62 and bus controller 64. Memory controller 62 may provide an address translation function that translates virtual addresses into physical addresses as instructions are executed. Memory controller 62 may also provide a memory protection function that isolates processes within the system and isolates system processes from user processes. Thus, a program running in user mode can access only memory mapped by its own process virtual address space; it cannot access memory within another process's virtual address space unless memory sharing between the processes has been set up.

An expansion card or expansion board is a circuit board that includes chips and other electronic components connected in a circuit that adds functions or resources to the computer. Typical expansion cards add memory, disk-drive controllers 66, video support, parallel and serial ports, and internal modems. For laptop, palmtop, and other portable computers, expansion cards usually take the form of PC Cards, which are credit card-size devices designed to plug into a slot in the side or back of a computer. An example of such a slot is the PCMCIA slot (Personal Computer Memory Card International Association) which defines type I, II and III card slots. Thus, empty slot 68 may be used to receive various types of expansion cards or PCMCIA cards.

Disk controller 66 and diskette controller 70 both include special-purpose integrated circuits and associated circuitry that direct and control reading from and writing to a hard disk drive 72 and a floppy disk or diskette 74, respectively. Such disk controllers handle tasks such as positioning read/write head, mediating between the drive and the microprocessor, and controlling the transfer of information to and from memory. A single disk controller may be able to control more than one disk drive.

CD-ROM controller 76 may be included in data processing system 20 for reading data from CD-ROMs 78 (compact disk read-only memory). Such CD-ROMs use laser optics rather than magnetic means for reading data. Multi-media interface 108 interfaces with multi-media and devices such as speakers 48, camera 46, and microphone 44. These multi-media and devices provide the ability engage in video conferencing and other applications which require video and sound input and output.

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Keyboard mouse controller 80 is provided in data processing system 20 for interfacing with keyboard 82 and a pointing device, such as mouse 84. Such pointing devices are typically utilized to control an on-screen element, such as a cursor, which may take the form of an arrow having a hot spot that specifies the location of the pointer when the user presses a mouse button. Other pointing devices include the graphics tablet, the stylus, the light pen, the joystick, the track, the trackball, and the trackpad.

Direct memory access (DMA) controller 86 may be used to provide a memory access that does not involve CPU 50. Such memory accesses are typically employed for data transfer directly between memory and an "intelligent" peripheral device, such as between memory 56 and disk controller 66.

Communication between data processing system 20 and other data processing systems may be facilitated by serial controller 88 and network adaptor 90, both of which are coupled to system bus 54. Serial controller 88 is utilized to transmit information between computers, or between a computer and peripheral devices, one bit at a time over a single line. Serial communications can be synchronous (controlled by some time standard such as a clock) or asynchronous (managed by the exchange of control signals that govern the flow of information). Examples of serial communications standards include the RS-232 interface and the RS-422 interface.

As illustrated, such a serial interface may be utilized to communicate with modem 92. A modem is a communications device that enables a computer to transmit information over a standard telephone line. Modems convert digital computer signals to analog signals suitable for communication over telephone lines. Modem 92 may provide a connection to other sources of software, such as a server, an electronic bulletin board, and the Internet or World Wide Web.

Network adaptor 90 may be used to connect data processing system 20 to a local area network 94. Network 94 may provide computer users with means of communicating and transferring software and information electronically. Additionally, network 94 may provide distributed processing, which involves several computers and the sharing of workloads or cooperative efforts in performing a task.

Display 96, which is controlled by display controller 98, is used to display visual output generated by data processing system 20. Such visual output may include text, graphics, animated graphics, and video. Display 96 may be implemented with a CRT-based video display, an LCD-based flat-panel display, or a gas plasma-based flat-panel display. Display controller 98 includes electronic components required to generate a video signal that is sent to display 96.

Printer 100 may be coupled to data processing system 20 via parallel controller 102. Printer 100 is used to put text or a computer-generated image on paper or on another medium, such as a transparency. Other types of printers may include an inkjet printer, a plotter, or a film recorder.

Parallel controller 102 is used to send multiple data and control bits simultaneously over wires connected between system bus 54 and another parallel communication device, such as printer 100. The most common parallel interface is the Centronics interface.

During data processing operations, the various devices connected to system bus 54 may generate interrupts which are processed by interrupt controller 104. An interrupt is a request for attention from CPU 50 that can be passed to CPU 50 by either hardware or software. An interrupt causes the

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microprocessor to suspend currently executing instructions, save the status of the work in progress, and transfer control to a special routine, known as an interrupt handler, that causes a particular set of instructions to be carried out. Interrupt controller 184 may be required to handle a hierarchy of interrupt priorities and arbitrate simultaneous interrupt requests. Interrupt controller 184 may also be used to temporarily disable interrupts.

FIG. 3 illustrates the individual security trading network according to the present invention. Individual security trading network 300 is comprised of a plurality of users connected to a central server. Users 302-310 are connected to server 316 by communications links 312. Users 302-310 can be individuals operating data processing systems, such as the data processing system depicted in FIGS. 1 and 2.

In the preferred embodiment, communications links 312 represent the modem-to-modem communications links between the users and server 316. Although users 302-310 may communicate with server 316 using a modem to send information over public telephone lines, many other types of communications links are possible between users 302-310 and server 316. Some other examples of possible communication methods between users 302-310 and server 316 are cable modems, local area networks, wireless communications, fiber optics lines, and others. The method by which users 302-310 communicate with server 316 is not important, as the present invention simply requires that the users be able to send and receive information to server 316. Also, although only five users are shown in FIG. 3, the present invention can accommodate many additional users at any given time.

Server 316 is provided to allow users 302-310 to view each other's buy and sell orders, as well as to allow for the management of those orders and of the individual securities trading network as a whole. When a user forms an order to buy or sell a security, this order is transferred from the user to server 316. An order formed by a user is an offer to buy or sell a security whose the user has defined the parameters (e.g., the price, quantity) of the offer. When the user's order is received at server 316, the order is reviewed by a broker. Then, the order is combined with other orders for transmission to the other users. In this manner, when one user makes an offer to buy or sell a security, the other users connected to the individual securities trading network receive this information and are able to accept the original user's offer.

Although FIG. 3 depicts server 316 as a single unit, in reality, server 316 is comprised of several computing units and these units may be distributed over a large area. Server 316 would typically contain external storage units, communication interfaces for transferring data to users, processor and memory subsystems, and other computing devices that are commonly attached to server devices.

Besides allowing users to buy and sell securities from each other, server 316 performs many other functions. For instance, server 316 can provide e-mail and video conferencing services to the users. Also, server 316 can serve as a interface to other computing resources such as the Internet, financial news services, and other networks which buy and sell securities.

These other networks which buy and sell securities can be separate networks contain other users or entities buying and selling securities. These other networks may be administered by entities other than the one which administers the individual securities trading network, but, through prior agreements, offers to buy and sell securities on a separate network can be publicized on the individual securities

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trading network, and vice versa. Displaying orders to buy and sell securities which have originated from other networks increases the total number of orders available to users connected to the individual securities trading network. This increases the liquidity of the securities being bought and sold, and enhances the individual securities trading network in general.

In summary, individual securities trading network 300 allows users 302-310 to transmit to server 316 offers to buy and sell various securities. Server 316 receives these offers and transmits them to other users who are interested in the same security. When one user accepts another user's offer to buy or sell a security, server 316 "crosses" these orders. Server 316 crosses an order by matching an order to buy a security with an order to sell the same security at the same price. In the case of the present invention, crossing two orders involves matching an order from one individual directly with the order of another individual, and executing these orders, after broker approval. As stated above, when a user places an order to buy or sell a security, server 316 allows a broker to pre-approve the user's offer to buy or sell a security.

Users 302-310 communicate with server 316 using a data processing system such as those shown in FIGS. 1 and 2. These data processing systems are controlled by a user trading program which allows a user to enter offers to buy and sell securities, as well as to view and accept offers to buy and sell securities which have originated from other users.

FIG. 4 illustrates the trading screen of the program controlling a user's data processing system according to the present invention. In a preferred embodiment of the present invention, the user trading program which controls a user's data processing system executes under a graphical user interface such as Microsoft Windows or Microsoft Windows '95. However, executing under a graphical user interface does not affect the functionality of the trading program, and hence, the user trading program may execute on data processing systems which do not have graphical user interfaces.

Some of the various functions available in the user trading program can be accessed from menu bar 401 located at the top of trading screen 400. Activation of *PictureStock* button 404 will display pricing screen 500, shown in FIG. 5. This screen enables a user to select the individual security or stock about which they wish to receive information. This information will be subsequently displayed in buy window 428, sales data window 430, sell window 432, sales graph window 434, and other locations.

Activation of *TrxNet* button 404 allows a user to access various communication features provided by the individual securities trading network shown in FIG. 3. For example, security quotes, e-mail, video conferencing, video mail, and other services are made available by activating *Trx Net* button 404.

Activation of *research* button 408 allows a user to display fundamental and technical information on a company. This information includes 10-Ks, the names of directors, ratios, sales figures, recent news announcements, and other information.

Activation of *reports* button 410 will display reports of a user's cash flow, account activity, positions in various securities, and other information.

Activation of *stock watch* button 412 allows a user to activate ticker tape 440. From the screen displayed by the activation of stock watch button 412, a user can personalize ticker tape 440 so that only the stocks of interest to the user will be displayed. Activation of *help* button 402 displays a



variety of context sensitive help screens that explain the functionality of the trading program. Activation of "More . . ." button 414 allows a user to perform house-keeping operations with respect to their trading account. For instance, activation of "More . . ." button 414 allows a user to change their password, change their screen name, and configure the communications settings for their given data processing system. Also, a user may transfer money into or out of their trading account after activating "More . . ." button 414. Activation of logoff button 416 will log a user off the individual securities trading network.

Cancel order button 422 allows one to cancel a previously entered limit order. Virtual market button 426 initiates a process by which a user can make markets in a security, which will be discussed in a subsequent portion of this specification. Last news button 434 displays recent news stories regarding the security listed in field 434.

A user can place orders to buy or sell a security by activating buy button 418 or sell button 424. Activation of buy button 418 will cause buy screen 600, illustrated in FIG. 6, to be displayed. Buy screen 600 allows a user to input the details of the security they wish to purchase. After completing the information in buy screen 600, a user is returned to trading screen 400.

In a similar manner, activation of sell button 424 will display sell screen 700 depicted in FIG. 7. When sell screen 700 is displayed, a user can enter information relating to the security they wish to sell. When a user completes sell screen 700, they are returned to trading screen 400.

When a user places a sell or buy order, this order will be either a market order or a limit order. A market order is an order that is able to be executed immediately. A limit order is an order which cannot be executed immediately due to the current price of the security and the price at which the order was placed.

For example, if a user wanted to sell a share of ABC stock for \$39.00, and there were people in the market who were willing to pay \$39.00 and up for the share of ABC stock, the user could sell the stock immediately. In this instance, an order to sell one share of ABC for \$39.00 would be considered a market order because such an order could be executed immediately. However, if this same user was wanting to sell the share of ABC stock for \$42.00 and the most a user in the market was willing to pay for this share of stock was \$40.00, this order could not be executed immediately. The reason this order could not be executed immediately is there would be a \$2.00 difference between the lowest price the user was willing to accept for their share of stock and the highest price another user was willing to pay for it. In such cases, these limit orders remain active until they either expire or they are cancelled by a user. A limit order is executed when the price of a security falls or rises up to the limit specified by a user. In the above example, if the price of a share of ABC stock continued to rise until someone was willing to pay \$42.00 for it, at that time, the limit order specified by the user could be executed.

In trading screen 400, limit orders to buy are displayed in buy window 428, and limit orders to sell are displayed in sell window 432. These orders display the user name and user identification number of the user who wishes to buy or sell the security. Also shown is the price and quantity of the security being traded, and any special conditions of the order. As is shown in FIG. 4, buy window 428 contains various limit orders to buy various amounts of General Motors' (GM) stock. Likewise, sell window 432 contains various limit orders to sell various amounts of GM stock.

Field 434 displays the name of the stock currently being traded in windows 428 and 432.

Sales graph window 434 displays short term technical trading information for the security listed in field 434. This information enables one to identify trends and/or buy or sell opportunities. Sales graph chart 434 displays offers to buy and offers to sell that originated from other users connected to the individual securities trading network, the price of trades that have been executed between users connected to the individual securities trading network, and the execution price of other trades in the same security that have occurred in markets other than the one in which the user is connected.

Sales data window 430 displays the time, the date, and the price of all orders that have been executed on the individual securities trading network.

FIG. 3 depicts the screens where a user can specify the security about which they wish to receive pricing information. Selection box 516 allows a user to select a market where securities are traded in a given currency. As is shown in pricing screen 500, a user has chosen to display the securities in a market where the securities are traded in U.S. dollars.

Window 512 contains a list of the securities in the market specified by the user in box 516. From window 512, a user can select a given security. The security chosen by the user will appear in box 514, and the symbol under which the security is traded will appear in box 518.

Several fields of information are displayed for each security in window 512. First, the name of the security is displayed. Next, the symbol which represents the security is shown. Next, the country where the security is traded is illustrated. If the security is traded on the individual securities trading network, that information is denoted under the column labeled RMST. A crop number for each security is also provided. A security's crop number is a unique numerical identifier for a given security. Finally, the primary market in which the security is traded is also displayed. When current markets field 518 is activated, only those securities available to be traded within the individual securities trading network will be displayed in window 512. If current markets field 518 is not activated, securities external to the individual securities trading network will be shown in window 512.

At the bottom of pricing screen 500, there is displayed a plurality of buttons. Activation of help button 502 will display another screen containing information on how to make use of the fields in pricing screen 500. Quotes button 504 will display a screen which contains pricing information on the security selected by the user in window 512. Activation of trade screen button 506 will return one to trading screen 400. Finally, close button 508 will close pricing screen 500 and will return the user to the previously displayed screen. Pricing screen 500 is displayed by activating PickStock button 404, shown in FIG. 4.

FIG. 6 illustrates the screen where information relating to an order to buy a security is entered. Buy screen 600 may be displayed by activating buy button 418 in trading screen 400. From buy screen 600, a user can enter pricing and quantity information for a security they wish to purchase. At the top of buy screen 600 is buy to open button 612, buy to close button 614 and markets button 616. If a user wishes to buy a security to add to their portfolio, buy to open button 612 is activated. If a user wishes to buy to cover a short position, buy to close button 614 is activated. If a user wishes to make a market in a given security, markets button 616 is activated. The ability to make markets in a given security will be illustrated and discussed in a subsequent section of this specification.

Quantity field 620 allows one to specify the number of shares of a given security they wish to purchase. Limit price field 622 allows one to specify a maximum price for the security to be bought. If the price entered in limit price field 622 is equal to or greater than the lowest price at which another user wishes to sell a security, the buy order will be treated as a market order. If the price specified in limit price field 622 is less than the lowest price at which a user is wanting to sell a given security, the order specified will be treated as a limit order.

When market button 616 has been previously activated, the value entered into minimum field 624 will be treated as the market price for the market a user wishes to create.

If buy to close field 614 has been activated, one must enter a value into short position lot selection field 626. Selection of a lot in field 626 allows the individual securities trading system to know which short lot to apply the securities bought with the order being specified in buy screen 600.

Expiration of order field 628 allows a user to specify when a limit order should expire. Special order field 630 allow one to place special conditions upon the order being entered into buy screen 600. Activation of the do not reduce field will cause the trading system not to automatically reduce the limit price if the security specified in field 618 pays a dividend.

Activation of the negotiate field will make a notation in trading screen 400 that the price specified for this buy order is negotiable. To negotiate an order, a user in the individual trading system can contact another user through e-mail, or video conferencing. During this process, two users attached to the individual securities trading network can negotiate the sale or purchase of a given security. This negotiation process can be done anonymously by using only a user's user identification. If RMST only field is activated, a user's order will only be displayed to other users of the individual securities trading network. If this field is not activated, the individual securities trading network will publicize the user's offer to buy to other networks where securities are bought and sold. Activation of the all or none field specifies that an order cannot be partially filled.

Help button 602 will display context sensitive help screens, while cancel button 606 will cancel the current buy order.

After one has specified the information regarding the buy order, activation of RMST market button 604 will cause the user's buy order to be entered as a market order, according to the price specified in the limit price field 622. If the user entered a limit order, activation of enter limit order button 606 will cause the user's order to be entered as a limit order and displayed on trading screen 400.

FIG. 7 depicts the screen where information relating to an order to sell a security is entered. Sell screen 700 closely corresponds to the previously described buy screen 600. Sell screen 700 is displayed by activating sell button 434 in trading screen 400. In sell screen 700, buttons 702-708 function in the same manner as buttons 602-608 shown for buy screen 600. Also, the options available in special order field 710, shown in sell screen 700, are the same as in special order field 610 in buy screen 600.

Quantity field 720 allows a user to specify the number of shares they wish to sell. Limit price field 722 allows a user to specify the price at which they wish to sell their security. If the price is less than or equal to the highest price at which another user is willing to buy the security, the order will be a market order. Conversely, if the selling price specified in limit price field 722 is greater than the highest price at which

another user is willing to buy the security, the order will be treated as a limit order. Minimum field 724 allows a user to specify the minimum number of shares that can be sold at one time.

Activation of sell to close button 712 allows a user to sell a security they currently own. When sell to close button 712 is activated, the particular lot the user wishes to sell must be select from long position lot selection field 726.

Activation of short to open button 714 allows a user to sell short a given security. Short against the box button 716 allows one to sell short a given security that is already owned in the user's account. The security that is already owned by the user is used as collateral against the short selling of that security. Market button 717 indicates a user has decided to make a market in a given security, and is specifying selling information for that security. This button will be activated when a user has selected virtual market button 416, shown in FIG. 4. A description and illustration of how a user can make a market in a given security will be discussed in a following portion of this specification.

Referring now to FIG. 4, after entering a market order in either buy screen 600 or sell screen 700, the user will be returned to trading screen 400. If the user entered a market buy order, the user will be prompted to select one of the offers to sell in sell window 432. Normally, this would be the offer to sell which has the lowest price. For example, in sell window 432, the lowest price offered to sell is by the user with the user identification TEXCEN. TEXCEN's offer is to sell 15,300 shares of GM at \$38.14. Offers to buy and sell in windows 428 and 432 are arranged according to price. If two offers are entered at the same price, the orders will be sorted according to their size (i.e., number of shares in the order).

In a manner very similar to a market order to buy, if a user enters a market sell order, they will be prompted to select one of the orders listed in buy window 428. Normally, this will be the offer with the greatest price.

After the user selects a given offer to buy or sell, the user will then activate execute button 438. Next, the user will be given one more chance to reconfirm the order they entered into buy screen 600 or sell screen 700. After a user reconfirms the order, the order will be directed through the network for immediate validation, approval, and execution. Validation by a broker consist of verifying that funds are available when buying securities and, that the securities are in good deliverable form when selling. Also, a broker will verify that any short sales have been approved prior to execution.

Once an order has been executed, a confirmation screen will appear with the security symbol that was just bought or sold, the number of shares traded, and the price at which the shares were traded.

FIG. 8 illustrates the process flow by which two users connected to the individual securities trading network may buy and sell securities from each other. Initially, a user connected to the individual securities trading network decides to buy or sell a security. In the example shown in FIG. 8, User A decides to enter a limit order to sell a security (800).

After a user has entered a limit order, this limit order is sent to a server over the communications network (805). Upon receipt at the server, User A's order is sent to a broker for approval or disapproval (810). This broker review consists of ensuring that there is sufficient funds in a user's account if the user is buying a security, ensuring that a user has been pre-approved if they are selling short a security, or

ensuring that a user actually has the specified security in his account to sell. In the example shown in FIG. 8, the broker would ensure that User A actually had the security he wishes to sell in his account. In addition, other overnight procedures normally performed by a broker can be performed at this time.

After the broker has approved User A's order, this order is then sent to other users connected to the individual securities trading network (815). This order can also be communicated to other users and entities outside the individual securities trading network. For users attached to the individual securities trading network, User A's order will appear in sell window 432 of trading screen 480. Once an order is transmitted to all of the other users on the individual securities trading network, it is placed alongside other orders for the same security in sell window 432. Orders are displayed according to the order's price, quantity of shares to be bought or sold, and other factors.

At some point, another user connected to the individual securities trading network, or a user or other entity external to the individual securities trading network can decide to accept User A's offer to sell a security. In the example depicted in FIG. 8, User B decides to accept User A's offer to sell a given security. To accept this offer, User B enters a market order to buy the specified security (820). Once User B enters a market order to buy a security, this order is then sent to the server (825). At the server, a broker has a chance to either approve or disapprove User B's order to buy the security (830). This approval process is very similar to the one conducted in step (818). In this instance, since User B is going to buy a security, the broker will ensure that User B has enough money in his account to cover his purchase of the security.

Assuming that User B's market buy order is approved by the broker, User B then selects User A's limit sell order from sell window 432 (835). The process by which User B can select an order is found in the discussion of trading screen 400. Once User B selects User A's order, this information is sent back to the server (840). Once User B's selection arrives at the server, the server can then note that a transaction has occurred, and can send confirmation of this transaction to both User A, User B, and other users attached to the individual securities trading network. The server will then transfer money from User B's account to User A's account, as well as performing other common "housekeeping" functions related to the completion of this transaction.

FIG. 9 depicts the process by which a user can create a market in a given security. A user can create a market in a security by selling a security, buying a security, or by simultaneously buying and selling a security. Initially, from trading screen 400, the user activates virtual market button 426. Upon the activation of this button, buy screen 1080, illustrated in FIG. 10, is displayed (900). Buy screen 1080 allows the user to enter their maximum long position in the security in which they are making a market, the maximum amount of the security that can be purchased in a single transaction, and the initial price they wish to begin purchasing the security (905). After these values are entered, the user activates button 1088 to display sell screen 1100.

Sell screen 1100, shown in FIG. 11, allows a user to enter the initial values at which the security in which the user is making a market will be sold. The maximum short position in the security in which a market is being made can be specified, along with the maximum amount of the security which can be sold at one time and the initial price at which the security will be sold (910). After this information is entered, the user activates button 1108 to return to the trading screen.

When the trading screen is displayed it will resemble trading screen 480, with one exception. In place of sales graph window 434, market control window 1200, shown in FIG. 12, is displayed. Market control window 1200 allows the user to control the prices, volumes, and market size of the market they have created in a particular security (915).

FIG. 10 illustrates the buy screen which is displayed when the user is creating a market in a particular security. In buy screen 1080, the value within quantity field 1086 represents the maximum number of shares of a security that can be held at one time. The value within quantity field 1086 is also known as the maximum long position. The value within limit price field 1084 indicates the limit price which shares of the security will be initially sold. The value within market size field 1082 indicates the maximum size of the increments in which shares of the particular security will be bought. In the example shown in FIG. 10, shares of a particular security will be bought for \$38.00/share, in quantities of up to 1000, until a maximum of 5,000 shares are bought.

Market indicator 1010 communicates to a user that the data they are entering in to buy screen 1080 will be used to create a market in a particular security. Security field 1012 displays the particular security in which a user is making a market. After the user has finished entering data into buy screen 1080, the user then activates virtual market button 1088 to proceed to sell screen 1100.

FIG. 11 depicts the sell screen which is displayed when the user is creating a market in a particular security. Whereas buy screen 1080 allowed a user to specify information relating to the buying of a particular security, sell screen 700 allows a user to specify information relating to the selling of a particular security. The value displayed in quantity field 1104 indicates a user's maximum short position. The value within limit price field 1104 indicates the price at which the particular security will initially be sold. Market size field 1102 indicates the maximum increments in which shares of the particular security will be sold. Fields 1102-1106 correspond closely with fields 1082-1086, shown in FIG. 10.

Also shown in sell screen 1100, market indicator 1110 indicates that the information a user is entering will be used to make a market in the particular security previously chosen. When a user is finished entering information into sell screen 1100, they activate virtual market button 1108 to proceed back to trading screen 400.

FIG. 12 illustrates a portion of the trading screen displayed when a user is making a market in a particular security. After the user has entered information into buy screen 1080 and sell screen 1100, trading screen 480 is displayed as shown in FIG. 4, with one exception. In place of sales graph window 434, market control window 1200, shown in FIG. 12, is displayed in its place. Market control window 1200 allows a user to control the market he has created in a particular security. Control buttons 1204-1216 provide real-time control of the prices of the user's offers to sell and offers to buy.

Specifically, volume button 1208 raises or lowers the volume of the user's offer to buy. Bid control button 1210 raises or lowers the limit price of the user's offer to buy. Market control button 1212 raises or lowers both the user's ask and bid prices at the same time. Ask control button 1214 raises or lowers user's limit price of the offer to sell. Finally, volume control button 1216 raises or lowers the volume of the user's offer to sell.

Activation of auto-pilot button 1206 instructs the trading program to disregard the values entered in the quantity fields of buy screen 1080 and sell screen 1100. Instead, the security

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in which the user has created the market will be bought and sold in quantities as specified by the market size fields shown in buy screen 1800 and sell screen 1108. The particular security will be sold in these increments until the market is closed by the user.

Bid open/close button 1204 allows the user to temporarily close their limit order to buy securities. This allows a user to temporarily stop buying the security, and then begin buying the security when they reactivate bid open/close button 1204. In a similar manner, ask open/close button 1202 allows the user to temporarily stop selling the chosen security. Reactivation of ask open/close 1202 button will reinstate the user's limit order to sell the chosen security.

Last trade field 1228 displays how many shares were bought or sold in the last trade executed. Position field 1226 displays the number of shares by which a user is short or long in the security they are making a market. Basis per share field 1224 displays the average price of the user's long or short position on a per share basis. Profit or loss field 1222 displays the user's net profit or loss in the market they have created. Activation of trade report button 1238 will display a summary of the execution activity in the market created by the user. Finally, monitor markets button 1218 allows a user to monitor other markets they have created.

It is important to note that while the present invention has been described in the context of a fully functional set of data processing systems, those skilled in the art will appreciate that the mechanisms of the present invention are capable of being distributed in the form of a computer readable medium of instructions in a variety of forms, and that the present invention applies equally regardless of the particular type of signal bearing media used to actually carry out the distribution. Examples of computer readable media include: recordable type media such as floppy disks and CD-ROMs and transmission type media such as digital and analog communication links.

While the invention has been particularly shown and described with reference to a preferred embodiment, it will be understood by those skilled in the art that various changes in form and detail may be made therein without departing from the spirit and scope of the invention.

What is claimed is:

1. A method for trading securities between individuals, comprising:

entering an offer of a first individual to trade a security on a first data processing system;

transmitting the offer to additional data processing systems, including a second data processing system, over a public communication network;

entering a reply of a second individual on the second data processing system, wherein the reply is in response to the offer;

executing a trade of the security based on information contained in the offer for consideration specified in the reply to the offer, whereby the security is traded efficiently between the first individual and the second individual;

transmitting to the second data processing system additional offers to trade in the security formed by additional individuals;

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ranking the offer formed by the first individual and the additional offers formed by the additional individuals according first to a price value, then secondly, according to a quantity value; and

displaying the offer formed by the first individual and the additional offers by the additional individuals according to the ranking step on a graphical user interface on the second data processing system.

2. The method as described in claim 1, wherein the step of entering a reply of a second individual on the second data processing system, wherein the reply is in response to the offer, includes:

using a pointing device to select the offer formed by the first individual from among the additional offers formed by the additional individuals from the graphical user interface on the second data processing system.

3. A network for trading securities between individuals, comprising:

entering means for entering an offer of a first individual to trade a security on a first data processing system;

transmitting means for transmitting the offer to additional data processing systems, including a second data processing system, over a public communication network;

entering means for entering a reply of a second individual on the second data processing system, wherein the reply is in response to the offer;

executing means for executing a trade of the security based on information contained in the offer for consideration specified in the reply to the offer, whereby the security is traded efficiently between the first individual and the second individual;

transmitting means for transmitting the offer to a server after the first individual forms the offer;

obtaining means for obtaining approval of the offer by a broker before the offer is transferred to the second individual;

transmitting means for transmitting to the second data processing system additional offers to trade in the security formed by additional individuals;

ranking means for ranking the offer formed by the first individual and the additional offers formed by the additional individuals according first to a price value, then secondly, according to a quantity value; and

displaying means for displaying the offer formed by the first individual and the additional offers by the additional individuals according to the ranking step on a graphical user interface on the second data processing system.

4. The network as described in claim 3, wherein the entering means for entering a reply of a second individual on the second data processing system, wherein the reply is in response to the offer, includes:

a pointing device to select the offer formed by the first individual from among the additional offers formed by the additional individuals from the graphical user interface on the second data processing system.

\* \* \* \* \*

# **PETITIONER'S BRIEF**

**In The  
Supreme Court of the United States**

JERRY W. GUNN, INDIVIDUALLY;  
WILLIAMS SQUIRES & WREN, L.L.P.;  
JAMES E. WREN, INDIVIDUALLY; SLUSSER &  
FROST, L.L.P.; WILLIAM C. SLUSSER, INDIVIDUALLY;  
SLUSSER WILSON & PARTRIDGE, L.L.P.; AND  
MICHAEL E. WILSON, INDIVIDUALLY,

*Petitioners,*

v.

VERNON F. MINTON,

*Respondent.*

**On Writ Of Certiorari To The  
Supreme Court Of Texas**

**PETITIONERS' BRIEF ON THE MERITS**

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## QUESTIONS PRESENTED

Did the Federal Circuit depart from the standard this Court articulated in *Grable & Sons Metal Products Inc. v. Darue Engineering & Manufacturing*, 545 U.S. 308 (2005), for “arising under” jurisdiction of the federal courts under 28 U.S.C. § 1338, when it held that state law legal malpractice claims against trial lawyers for their handling of underlying patent matters come within the exclusive jurisdiction of the federal courts? Because the Federal Circuit has exclusive jurisdiction over appeals involving patents, are state courts and federal courts strictly following the Federal Circuit’s mistaken standard, thereby magnifying its jurisdictional error and sweeping broad swaths of state law claims – which involve no actual patents and have no impact on actual patent rights – into the federal courts?

## **PARTIES TO THE PROCEEDING**

All parties to the proceeding are identified in the case caption.

## **RULE 29.6 STATEMENT**

Pursuant to Rule 29.6 of the Supreme Court Rules, Petitioners make this Disclosure of Corporate Affiliations and Corporate Interest:

Petitioners have no parent corporation, and there are no publicly held corporations that own 10% or more of their stock.

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## OPINIONS BELOW

The majority and dissenting opinions of the Supreme Court of Texas (App. 1-26 and App. 27-45)<sup>1</sup> are reported at *Minton v. Gunn*, 355 S.W.3d 634 (Tex. 2011), *cert. granted*, \_\_\_ S. Ct. \_\_\_, 2012 WL 831493 (2012). The opinion of the Court of Appeals for the Second District of Texas (App. 46-94) is reported at *Minton v. Gunn*, 301 S.W.3d 702 (Tex. App. – Fort Worth 2009), *reversed*, 355 S.W.3d 634 (Tex. 2011). The Court of Appeals' per curiam order denying rehearing en banc (App. 95-96) is not reported. The district court's orders granting summary judgment and its final judgment (JA 208-19) are not reported.

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## STATEMENT OF JURISDICTION

The petition for a writ of certiorari was filed on March 9, 2012, and was granted on October 5, 2012. The jurisdiction of this Court rests on 28 U.S.C. § 1257(a).

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<sup>1</sup> Citations to "App." in this Brief will be to the Appendix to the Petition for a Writ of Certiorari. Citations to "JA" will be to the Joint Appendix.

## **STATUTORY PROVISIONS INVOLVED**

At issue in this appeal is the "arising under" jurisdiction of the federal courts pursuant to 28 U.S.C. § 1338. At the time this action was filed, that provision read:

(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

(b) The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent, plant variety protection or trademark laws.

(c) Subsections (a) and (b) apply to exclusive rights in mask works under chapter 9 of title 17, and to exclusive rights in designs under chapter 13 of title 17, to the same extent as such subsections apply to copyrights.

Effective September 16, 2011, 28 U.S.C. § 1338 was amended, and it now reads:

(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. No State court shall have jurisdiction over any claim for relief arising under any

Act of Congress relating to patents, plant variety protection, or copyrights. For purposes of this subsection, the term "State" includes any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the United States Virgin Islands, American Samoa, Guam, and the Northern Mariana Islands.

(b) The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent, plant variety protection or trademark laws.

(c) Subsections (a) and (b) apply to exclusive rights in mask works under chapter 9 of title 17, and to exclusive rights in designs under chapter 13 of title 17, to the same extent as such subsections apply to copyrights.

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## STATEMENT OF THE CASE

### A. The Underlying Patent Litigation

Petitioners Jerry W. Gunn *et al.* (the "Lawyer Defendants") are attorneys who represented Respondent Vernon Minton in a federal patent infringement action against the National Association of Securities Dealers, Inc. (the "NASD") (the "Patent Litigation"). JA 17-22. In the Patent Litigation, Minton alleged that the NASD infringed Minton's U.S. Patent No. 6,014,643 (the "'643 Patent"). JA 20-21.

The NASD moved for summary judgment that the '643 Patent was invalid based on the "on-sale bar" provision in the Patent Act, 35 U.S.C. § 102(b), which invalidates a patent when the claimed invention is ready for patenting and is the subject of a commercial offer for sale more than one year prior to the date of the patent application. JA 11-12. Minton had developed a telecommunications network and software program called the Texas Computer Exchange Network ("TEXCEN") that allowed individuals to trade securities through a computer network, and his company leased TEXCEN to NASD dealer Stark more than one year before he applied for the '643 Patent. JA 11-12. At the time of the lease, Minton assured Stark that TEXCEN was a finished product, representing that "[a]fter five years of development, TEXCEN is scheduled to be on-line during March or April of this year." JA 39. During negotiations for the TEXCEN lease, Minton never informed Stark that any purpose of the Lease was experimentation. JA 40.

Like TEXCEN, the '643 Patent involved an interactive securities system. The NASD moved for summary judgment and argued that TEXCEN embodied Minton's invention, and the execution of the TEXCEN lease constituted a commercial offer for sale more than one year before Minton applied for the '643 Patent. JA 11. The district court in the Patent Litigation granted the NASD's summary judgment motion. *Minton v. Nat'l Ass'n of Sec. Dealers, Inc.*, 226 F. Supp. 2d 845, 852 (E.D. Tex. 2002), *affirmed*, 336 F.3d 1373 (Fed. Cir. 2003).

Following the summary judgment, Minton had his attorneys raise a new defense: that the experimental use doctrine negated the on-sale bar. New counsel filed a motion for reconsideration on Minton's behalf, briefing the experimental use issue, but the district court denied reconsideration. JA 13. Minton appealed, and the Federal Circuit affirmed the district court's summary judgment on the merits. *Minton v. Nat'l Ass'n of Sec. Dealers, Inc.*, 336 F.3d 1373, 1379 (Fed. Cir. 2003).

## **B. The Legal Malpractice Suit**

Minton then filed this legal malpractice suit against the Lawyer Defendants in Texas state court. JA 7-15. Minton alleged that the Lawyer Defendants were negligent in failing to raise timely the experimental use doctrine, and that caused him to lose the Patent Litigation or, alternatively, caused the Patent Litigation's pretrial dismissal, depriving him of the possibility of settlement. JA 14. The Lawyer Defendants moved for summary judgment that failure to plead and brief the experimental use doctrine did not proximately cause the dismissal of the Patent Litigation. JA 25-30.

The state district court granted summary judgment, ruling that the Lawyer Defendants had proven as a matter of law that the TEXTCEN lease had a commercial purpose. JA 211-14. The court observed that Minton did not dispute that the TEXTCEN lease had a commercial purpose and ruled



that the experimental use doctrine did not negate the on-sale bar because Minton presented no evidence that the TEXTCEN lease had any experimental purpose. The court made the following rulings regarding application of the on-sale bar and experimental use exception, all of which were specific to the facts of Minton's case:

(1) Any alleged experimental purpose of the TEXTCEN lease had to relate to a claimed element of the '643 patent, and Minton's purported experimental purpose did not relate to a claimed element and was therefore legally irrelevant (JA 212);

(2) Even if Minton's claimed experimental purpose was a proper legal basis upon which to base a claim of experimental use, qualified and admissible expert testimony was needed to support such a claim, and Minton did not proffer any expert proof to support his theory (JA 214); and

(3) Any relevant evidence of purported experimental purpose was limited to the period before Minton filed the application for the '643 Patent, and Minton had no evidence identifying any experimental purpose until after the on-sale bar was raised much later in the Patent Litigation (JA 213).

### **C. Appeal in the Legal Malpractice Suit**

Minton appealed the summary judgment in the legal malpractice case to the Court of Appeals for the Second District of Texas. While that appeal was

pending, the Federal Circuit decided two cases holding that federal courts have exclusive jurisdiction over all legal malpractice suits involving underlying patent matters: *Air Measurement Techs., Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 504 F.3d 1262 (Fed. Cir. 2007) and *Immunocept, L.L.C. v. Fulbright & Jaworski, L.L.P.*, 504 F.3d 1281 (Fed. Cir. 2007). Based on those two cases, Minton argued for the first time that the legal malpractice claims he filed (and lost) in state court were actually within the exclusive jurisdiction of the federal courts.

The court of appeals rejected the broad jurisdictional reach of *Air Measurement* and *Immunocept* and held that Minton's state law malpractice claims do not come within the federal courts' "arising under" jurisdiction. App. 46-94. The court instead applied the standard for analyzing "arising under" jurisdiction that this Court articulated in *Grable*, 545 U.S. at 314, and declined to follow the mistaken standard the Federal Circuit applied in *Air Measurement* and *Immunocept*. App. 58-61.

After determining that Minton properly brought his legal malpractice claims in state court, the court of appeals affirmed the summary judgment on the merits. App. 64-73. Regarding the issue of whether the TEXTCEN lease was commercial, the court of appeals quoted Minton's deposition testimony on the issue and concluded: "Based on the language of the TEXTCEN lease and Minton's own testimony establishing the commercial purpose of the lease, we hold

that the trial court did not err in concluding that the **TEXCEN** lease had a commercial purpose as a matter of law." App. 65-66. Regarding whether Minton brought forward any evidence of an experimental use for the **TEXCEN** lease, the court of appeals noted that Minton claimed that the lease had an experimental purpose for the first time in the Patent Litigation, and stated:

Additionally, there is no probative value to an inventor's subjective characterizations of an offer for sale as experimental when first expressed only after a patent infringement action has been filed. Subjective assertions of experimental use in Minton's deposition and affidavit testimony generated in the Patent Litigation, including his affidavit testimony that the primary purpose of the **TEXCEN** lease was "to be able to test and further develop the program," are not evidence of experimental use absent supporting objective relevant evidence predating the Patent Litigation.

App. 68-69 n. 46 (citations omitted). The court analyzed the evidence of what Minton told Stark about **TEXCEN**, found that "there is no evidence that Stark was aware that the actual purpose of the **TEXCEN** lease was experimental," and held that summary judgment was proper because "Minton failed to raise a genuine issue of material fact on his claim that the **TEXCEN** lease had an experimental purpose." App. 72-73.

Minton appealed to the Supreme Court of Texas. The Court split 5-3, with the majority strictly following the Federal Circuit in *Air Measurement* and *Immunocept* and holding that Minton's claims come within the exclusive jurisdiction of the federal courts. App. 1-26. The dissent concluded that Minton's claims did not meet the *Grable* standard for "arising under" jurisdiction. App. 27-45. The dissent noted that this Court cautioned against an overly broad interpretation of "arising under" jurisdiction, which "would have attracted a horde of original filings and removal cases raising other state claims with embedded federal issues." App. 40. The dissent concluded that the "Supreme Court's fears have already been realized" in subsequent cases applying the Federal Circuit's broad construct of "arising under" jurisdiction. App. 41.

The Supreme Court of Texas vacated the summary judgment and dismissed Minton's claims for want of jurisdiction. App. 26. Minton has since refiled his legal malpractice claims against the Lawyer Defendants from scratch in federal court: Case No. 6:12-cv-000291; *Vernon F. Minton v. Jerry W. Gunn, et al.*; in the United States District Court for the Eastern District of Texas, Tyler Division. That action has been stayed pending this Court's decision.

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## SUMMARY OF ARGUMENT

I. Legal malpractice claims require that the plaintiff prove that he would have prevailed in the underlying representation but for the lawyer's negligence. Known as the "case within a case" doctrine, it is the causation element of all legal malpractice claims.

State law creates legal malpractice claims, and the issue in this case is whether such claims come within the federal courts' "arising under" jurisdiction when the underlying representation was a federal patent matter. "Arising under" jurisdiction can include state law claims that raise a federal issue, but this Court has held that jurisdiction is proper if: (1) the embedded federal issue is not only necessary, but is actually disputed and substantial; and (2) the federal courts' exercise of jurisdiction is consistent with the appropriate balance of federal and state interests. *Grable*, 545 U.S. at 313-14.

The Federal Circuit in *Air Measurement* and *Immunocept* held that state law legal malpractice claims that arise out of patent representation come within the federal courts' exclusive "arising under" jurisdiction. The Federal Circuit standard, followed by the Supreme Court of Texas, improperly departs from the *Grable* standard by disregarding both the substantiality requirement and the balance of state and federal interests.

II. The appropriate standard for "arising under" jurisdiction proved elusive over time, as the Court



struggled with drawing a workable line to help identify which state claims come within the federal courts' "arising under" jurisdiction and which do not. In *Grable* this Court articulated a standard that resolved much of the uncertainty. The *Grable* standard is as follows: "the question is, does a state-law claim necessarily raise a stated federal issue, actually disputed and substantial, which a federal forum may entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities." 545 U.S. at 314. The *Grable* Court's discussion of the various elements and their application to the specific issues at hand confirms that the substantiality requirement and the balance of state and federal interests are meaningful inquiries.

Regarding the substantiality requirement, *Grable* analyzed the importance of the federal issue itself, not merely the issue's importance to the specific state claim before it, when deciding whether the federal issue was sufficiently substantial to support federal "arising under" jurisdiction. Regarding the balance of state and federal interests, *Grable* explained that the federalism balance is such a critical inquiry that it can serve as a "possible veto" of federal jurisdiction even if a substantial federal issue exists. Under the *Grable* standard, consideration of the federal-state balance is a separate, independent component of "arising under" jurisdiction, and it demands more than mere identification of a federal interest.

III. Under the appropriate *Grable* standard, state law legal malpractice claims that arise out of



underlying patent representation do not come within the federal courts' exclusive "arising under" jurisdiction. The Federal Circuit departed from the *Grable* standard when it held otherwise in *Air Measurement* and *Immunocept*. The Supreme Court of Texas strictly followed the mistaken Federal Circuit standard and likewise held that Minton's claims against the Lawyer Defendants come within the exclusive "arising under" jurisdiction of the federal courts.

A. The Federal Circuit standard improperly conflates necessity and substantiality, and holds that a federal issue is substantial if it is necessary to the state claim. That is contrary to *Grable*, which clarifies that the mere presence of a federal issue is never enough to support "arising under" jurisdiction. The Federal Circuit standard also ignores the fact that the "case within a case" issue in a legal malpractice claim is necessarily hypothetical. Any actual patent issues were finally resolved in the underlying representation, and any contrary finding in the legal malpractice claims cannot change that result. By definition, resolution of a hypothetical issue cannot be sufficiently substantial to support "arising under" jurisdiction.

The Federal Circuit standard also departs from the *Grable* standard regarding the balance of state and federal interests. The Federal Circuit identified a federal interest – maintaining the uniformity of patent law – and that was the end of the federalism inquiry. Given the hypothetical nature of the "case within a case" inquiry, that overstates the federal interest. Moreover, there was no consideration of any

state interest at all, even though there are significant state interests involved in the regulation of lawyers. Application of the Federal Circuit standard also has the net effect of sweeping a large number of state law claims into federal court, further upending the balance.

B. This Court should reaffirm the *Grable* standard to emphasize that the substantiality requirement for “arising under” jurisdiction requires something more than that the embedded federal issue is necessary to the state law claim. Substantiality focuses on the nature of the federal interest, and it is a distinct requirement in the *Grable* standard. This Court should also emphasize that the balance of state and federal interests requires a meaningful analysis of *both* state and federal interests. Consideration of those interests protects not only the significant interests states have in regulation of lawyers, but it will keep huge numbers of garden-variety state tort claims from being swept into federal court.

C. There are three significant reasons that this Court should adopt a bright-line rule that state law legal malpractice claims cannot ever come within “arising under” jurisdiction of the federal courts. First, such a rule recognizes the hypothetical nature of the “case within a case” inquiry, which necessarily renders the federal issue insubstantial. Second, it would provide much-needed clarity. In the years since the Federal Circuit first applied its mistaken standard, there has been significant confusion among both state and federal courts regarding which legal

malpractice claims come within “arising under” jurisdiction and which do not. Finally, allowing the state courts to decide patent issues in the “case within a case” inquiry would not threaten the uniformity of patent law, because the issues are hypothetical and will not be precedential or binding on the federal courts.

IV. Congressional enactments relating to the federal courts’ jurisdiction over actions relating to patents do not change the scope of “arising under” jurisdiction or the result here. Notwithstanding its stated goal of maintaining uniformity of patent law, Congress defined the scope of appellate jurisdiction of the Federal Circuit by referring to the scope of the district courts’ original “arising under” jurisdiction. Congress also recently amended the scope of removal and Federal Circuit appellate jurisdiction to capture patent claims that are raised in counterclaims (thus modifying the well-pleaded complaint rule). But it expressly left the scope of original “arising under” jurisdiction unchanged.

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## ARGUMENT

- I. **The issue in this appeal is whether the “case within a case” causation element of legal malpractice claims can ever support “arising under” jurisdiction.**

The federal courts have jurisdiction over any civil action arising under any Act of Congress relating to

patents. 28 U.S.C. § 1338.<sup>2</sup> The issue in this appeal involves the proper application of that provision to state law legal malpractice claims that arise out of legal representation in cases involving patents.

State law, not federal law, created Minton's legal malpractice claims against the Lawyer Defendants, but to prevail on those claims, Minton had to prove that he would have prevailed in the underlying Patent Litigation but for the Lawyer Defendants' negligence. This is known as the "case within a case" doctrine, and it is the causation element of all legal malpractice cases. *See, e.g., Alexander v. Turtur & Assocs.*, 146 S.W.3d 113, 117 (Tex. 2004) ("To prevail on a legal malpractice claim, a plaintiff must show that" his attorney's negligence "proximately caused the plaintiff's injuries."); *Webb v. Stockford*, 331 S.W.3d 169, 173 (Tex. App. – Dallas 2011, pet. denied). The jurisdiction issue here is thus whether that causation element – the hypothetical determination of whether Minton would have prevailed in

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<sup>2</sup> This appeal involves "arising under" jurisdiction pursuant to 28 U.S.C. § 1338, because the underlying suit related to a patent. The scope of "arising under" jurisdiction has been construed to mean the same thing under both 28 U.S.C. § 1331 (general federal question jurisdiction) and 28 U.S.C. § 1338 (civil actions relating to patents). *See Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 829-30 (2002) (quoting *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 808 (1988) and explaining that "linguistic consistency" requires us to apply the same test to determine whether a case arises under § 1338(a) as under § 1331"). The case law construing 28 U.S.C. § 1331 is thus equally applicable to 28 U.S.C. § 1338.

the underlying Patent Litigation against the NASD if the Lawyer Defendants had timely invoked the experimental use doctrine in response to the on-sale bar defense – suffices to make Minton's state law legal malpractice suit "arise under" federal law.

The fact that state rather than federal law creates legal malpractice claims is not dispositive, because state law claims with embedded federal issues may come within the federal courts' jurisdiction. "Arising under" jurisdiction can include cases in which "the vindication of a right under state law necessarily turn[s] on some construction of federal law." *Franchise Tax Bd. v. Constr. Laborers Vacation Trust for Southern Cal.*, 463 U.S. 1, 9 (1983). "The question is, does a state-law claim necessarily raise a stated federal issue, actually disputed and substantial, which a federal forum may entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities." *Grable*, 545 U.S. at 314.

Under the *Grable* standard, federal question jurisdiction exists only if a state law claim necessarily raises an embedded federal issue, and the federal issue is actually disputed and substantial. 545 U.S. at 314. The mere existence or necessity of a federal issue is not enough. *Grable* involves a two-step analysis: even if there is a disputed and substantial federal issue present (step one), federal jurisdiction will be found only if it is consistent with congressional judgment about the sound division of labor between



state and federal courts (step two). *Id.* at 313-14. "There *must always* be an assessment of any disruptive portent in exercising federal jurisdiction." *Id.* at 314 (emphasis added). Consideration of the federal-state balance is thus a separate, independent component of "arising under" jurisdiction.

The Federal Circuit standard announced in *Air Measurement* and *Immunocept*, which the Supreme Court of Texas strictly applied, departs markedly from the *Grable* standard in that it discards both the requirement that the federal issue be substantial and that courts balance state and federal interests. The Lawyer Defendants ask that this Court reject the Federal Circuit's modified standard, reaffirm the standard articulated in *Grable*, and confirm for the lower courts – state and federal – the continued vitality and importance of both the substantiality and federalism aspects of "arising under" jurisdiction. As is discussed more fully below, that is the appropriate result given the nature of legal malpractice claims, the complicated history of embedded question jurisdiction, and the imperative of articulating a clear and workable jurisdiction standard to guide the lower courts on a going-forward basis.



**II. The appropriate standard for “arising under” jurisdiction over state law claims has proved elusive over time, but this Court resolved much uncertainty in *Grable*.**

**A. The Court articulated a variety of standards after adopting the rule that state law claims with embedded federal issues can “arise under” federal law.**

The question of whether – and which – state law claims come within federal court jurisdiction has been the subject of discussion in this Court for the better part of a century. One early interpretation of the “arising under” jurisdictional grant would have excluded all state law claims from federal court jurisdiction, irrespective of whether they contained embedded federal issues, on the theory that a “suit arises under the law that creates the cause of action.” *American Well Works Co. v. Layne & Bowler Co.*, 241 U.S. 257, 260 (1916). That opinion, written for the Court by Justice Holmes, drew a bright line that kept all state law claims out of federal court.

Justice Holmes’ bright-line rule did not last long. Just a few years later, the Court reversed course and held that certain state law claims with embedded federal issues should come within “arising under” jurisdiction. *Smith v. Kansas City Title & Trust*, 255 U.S. 180, 201-02 (1921). The *Smith* opinion quoted Chief Justice Marshall writing for the Court long before “arising under” jurisdiction was part of any statutory scheme:

“A case in law or equity consists of the right of the one party, as well as of the other, and may truly be said to arise under the Constitution or a law of the United States, whenever its correct decision depends upon the construction of either,” [*Cohens v. Virginia*, 19 U.S. 264 (1821)]; and again, when “the title or right set up by the party, may be defeated by one construction of the Constitution or law of the United States, and sustained by the opposite construction.” [*Osborn v. Bank of the United States*, 22 U.S. 738 (1824)].

*Smith*, 255 U.S. at 199. The *Smith* Court held that state law claims to enjoin a bank from investing in certain bonds “arose under” federal law because the validity of the bonds depended on the constitutionality of an act of Congress. 255 U.S. at 201. Justice Holmes dissented from the exercise of federal court jurisdiction because, as he had written earlier, “a suit cannot be said to arise under any other law than that which creates the cause of action.” 255 U.S. at 214 (Holmes, J., dissenting).

The Court in *Smith* thus adopted a construction of “arising under” jurisdiction that would include certain state law claims with embedded federal issues, and in the ensuing years the Court expended a great deal of effort to articulate and refine the appropriate test to identify which state law claims come within the scope of that jurisdictional grant. The opinions over time identified the difficulty in crafting a firm rule but did little to clarify which state

law claims come within "arising under" jurisdiction and which do not. For example, one frequently quoted opinion on the issue, written by Justice Cardozo, described the task in this eloquent but less-than-clear way:

What is needed is something of that common-sense accommodation of judgment to kaleidoscopic situations which characterizes the law in its treatment of problems of causation. One could carry the search for causes backward, almost without end. Instead, there has been a selective process which picks the substantial causes out of the web and lays the other ones aside. . . . To set bounds to the pursuit, the courts have formulated the distinction between controversies that are basic and those that are collateral, between disputes that are necessary and those that are merely possible. We shall be lost in a maze if we put that compass by.

*Gully v. First Nat'l Bank in Meridian*, 299 U.S. 109, 117-18 (1936) (citations omitted).

The Court has frankly acknowledged the lack of clarity in the earlier "arising under" cases: "Since the first version of § 1331 was enacted, . . . the statutory phrase 'arising under the Constitution, laws, or treaties of the United States' has resisted all attempts to frame a single, precise definition for determining which cases fall within, and which cases fall outside, the original jurisdiction of the district courts." *Franchise Tax Bd.*, 463 U.S. at 8 (noting that

“the phrase ‘arising under’ masks a welter of issues regarding the interrelation of federal and state authority and the proper management of the federal judicial system”); *see also Grable*, 545 U.S. at 314 (acknowledging Court’s prior failure to “stat[e] a ‘single, precise, all-embracing’ test for jurisdiction over federal issues embedded in state-law claims between non-diverse parties”); *Merrell Dow Pharm. Inc. v. Thompson*, 478 U.S. 804, 809-10 (1986) (invoking “what Justice Frankfurter called the ‘litigation-provoking problem’ – the presence of a federal issue in a state-created cause of action”) (quoting *Textile Workers of Am. v. Lincoln Mills of Ala.*, 353 U.S. 448, 470 (1957) (Frankfurter, J., dissenting)); *Stone & Webster Eng’g Corp. v. Ilsley*, 690 F.2d 323, 328 (2d Cir. 1982), *judgment aff’d*, 463 U.S. 1220 (1983) (“Attempting to define an all inclusive test which will determine if a case ‘arises under’ the Constitution, laws, or treaties of the United States is like the exercise performed by the daughters of Danaus, condemned for eternity, as they were, to draw water with a sieve.”).

Though “arising under” jurisdiction did not lend itself to a “single, precise, all-embracing” test over time, the Court’s opinions grappling with the question were consistent as to certain fundamental principles, including:

- The mere existence of a federal issue embedded in a state law claim is not

enough to support "arising under" jurisdiction.<sup>3</sup>

- The scope of "arising under" jurisdiction is narrow.<sup>4</sup>
- The jurisdictional analysis must always take into consideration the appropriate balance of federal and state interests.<sup>5</sup>

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<sup>3</sup> See *Merrell Dow*, 478 U.S. at 813 (noting the "long-settled understanding that the mere presence of a federal issue in a state cause of action does not automatically confer federal-question jurisdiction"); *Gully*, 299 U.S. at 115 ("Not every question of federal law emerging in a suit is proof that a federal law is the basis of the suit."); *Shulthis v. McDougal*, 225 U.S. 561, 570 (1912) ("A suit to enforce a right which takes its origin in the laws of the United States is not necessarily, or for that reason alone, one arising under those laws, for a suit does not so arise unless it really and substantially involves a dispute or controversy respecting the validity, construction, or effect of such a law, upon the determination of which the result depends.").

<sup>4</sup> See *Romero v. Int'l Terminal Operating Co.*, 358 U.S. 354, 379 (1959) (explaining that 28 U.S.C. § 1331 "is broadly phrased, but it has been continuously construed and limited in the light of the history that produced it, the demands of reason and coherence, and the dictates of sound judicial policy which have emerged from the Act's function as a provision in the mosaic of federal judiciary legislation"); *Skelly Oil Co. v. Phillips Petroleum Co.*, 339 U.S. 667, 673 (1950) ("Congress has narrowed the opportunities for entrance into the federal courts, and this Court has been more careful than in earlier days in enforcing these jurisdictional limitations.").

<sup>5</sup> See *Merrell Dow*, 478 U.S. at 810 ("We have consistently emphasized that, in exploring the outer reaches of § 1331, determinations about federal jurisdiction require sensitive judgments about congressional intent, judicial power, and the federal system."); *Franchise Tax Bd.*, 463 U.S. at 8 (considering  
(Continued on following page)



Thus, though this Court did not design a “single, precise, all-embracing” test, it has through the years articulated consistent principles that are meaningful and substantive. Most recently, in *Grable*, this Court synthesized those principles into a more clear and workable standard.

**B. The Court in *Grable* articulated a simpler and clearer standard that requires both substantiality of the federal issue and a meaningful balance of state and federal interests.**

The dissent in the Supreme Court of Texas noted that *Grable* “is a landmark case in this area of jurisprudence, and it should be the touchstone for any court’s analysis of whether embedded question jurisdiction is proper.” App. 32 (citing Charles Alan Wright *et al.*, FEDERAL PRACTICE AND PROCEDURE § 3562 at 197-99 (3d ed. 2008) (“In 2005, the Supreme Court issued its finest effort in this line of cases. . . . In *Grable*, the Court for the first time discussed comprehensively the relevant factors for assessing [embedded question jurisdiction]. . . . *Grable* brings considerable clarity to what had been quite muddled.”)).

The *Grable* Court articulated its standard as follows: “The question is, does a state-law claim

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“the interrelation of federal and state authority and the proper management of the federal judicial system”).



necessarily raise a stated federal issue, actually disputed and substantial, which a federal forum may entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities." 545 U.S. at 314. The *Grable* opinion thus confirms that the mere existence of a federal issue is not sufficient to support "arising under" jurisdiction, and its discussion of the prior "arising under" jurisprudence emphasizes that substantiality of the federal issue and federalism concerns are of critical importance.

1. **The *Grable* standard confirms that the embedded federal issue must be substantial; the mere presence or necessity of a federal issue is not enough.**

*Grable* actually involved a fairly fundamental "arising under" jurisdiction issue. Specifically, the Court granted certiorari to resolve a split among the lower courts regarding whether the Court in the earlier *Merrell Dow* case had reverted to Justice Holmes' construct such that "arising under" jurisdiction "always requires a federal cause of action as a condition for exercising federal-question jurisdiction." *Grable*, 545 U.S. at 311-12. Rejecting the Holmes rule, the *Grable* Court confirmed that certain state law claims with embedded federal issues could come within "arising under" jurisdiction, but also analyzed and clarified the standards for determining which state claims are included and which are not.

As noted above, since its earliest “arising under” jurisprudence, the Court consistently held that the mere existence of a federal issue embedded in a state law claim is not enough to support “arising under” jurisdiction. *See, e.g., Gully*, 299 U.S. at 115 (“Not every question of federal law emerging in a suit is proof that a federal law is the basis of the suit.”). In *Grable* the Court explored that principle further and confirmed that the embedded federal issue must be not only necessary to the state claim, but actually disputed and substantial. 545 U.S. at 314.

The *Grable* Court first quoted what it described as the “somewhat generous” statement of the scope of embedded question jurisdiction from *Smith*, “that a state-law claim could give rise to federal-question jurisdiction so long as it ‘appears from the [complaint] that the right to relief depends upon the construction or application of’” federal law. *Grable*, 545 U.S. at 313 (quoting *Smith*, 255 U.S. at 199). The Court went on to explain that the *Smith* statement “has been subject to some trimming to fit earlier and later cases recognizing the vitality of the basic doctrine, but shying away from the expansive view that mere need to apply federal law in a state-law claim will suffice to open the ‘arising-under’ door.” *Grable*, 545 U.S. at 313. The Court then confirmed that it “has in fact become a constant refrain in such cases that federal jurisdiction demands not only a contested federal issue, but a substantial one, indicating a serious federal interest in claiming the advantages thought to be inherent in a federal forum.” *Id.*

Noting that it has never “treated ‘federal issue’ as a password opening federal courts to any state action embracing a point of federal law,” 545 U.S. at 314, the *Grable* Court’s application of that standard to the specific facts makes clear that the requirement that the federal issue be “substantial” demands a meaningful inquiry.

*Grable* involved the question of whether the IRS had acquired valid title to certain property seized from Grable for unpaid taxes. The IRS quitclaimed the property to a third party, and the validity of that party’s title turned on whether the IRS had given the requisite notice to Grable such that the seizure was valid. 545 U.S. at 310-11. “Whether Grable was given notice within the meaning of the federal statute is thus an essential element of its quiet title claim, and the meaning of the federal statute is actually in dispute.” 545 U.S. at 315. The Court held that “arising under” jurisdiction was appropriate because the “meaning of the federal tax provision is an important issue of federal law that sensibly belongs in federal court” given that the “Government has a strong interest in the ‘prompt and certain collection of delinquent taxes,’ and the ability of the IRS to satisfy its claims from the property of delinquents requires clear terms of notice to allow buyers . . . to satisfy themselves that the [IRS] has touched the bases necessary for good title.” *Id.* The Court thus analyzed the importance of the federal issue itself, not just the issue’s importance to the specific state title claim before it, when deciding whether the embedded

federal issue was sufficiently substantial to support “arising under” jurisdiction.

The *Grable* Court’s discussion of its prior holding in *Merrell Dow* further confirms that substantiality of the federal issue itself is a separate, distinct requirement for “arising under” jurisdiction and not merely a measure of whether the federal issue is important to the state claim at issue. The question in *Merrell Dow* was whether “arising under” jurisdiction existed where a state drug mislabeling claim relied upon federal statutory standards, but Congress had not authorized a federal private right of action based on those standards; the *Merrell Dow* Court found no federal jurisdiction over the state law mislabeling claim. 478 U.S. at 817. The *Grable* Court explained that “the absence of any federal cause of action affected *Merrell Dow*’s result” because the “Court saw the fact as worth some consideration in the assessment of substantiality.” *Grable*, 545 U.S. at 318. The nature of the embedded federal issue, not its importance to the specific state claim at issue, thus determines whether the issue is substantial for purposes of the “arising under” analysis.

Almost exactly a year after deciding *Grable*, the Court decided *Empire Healthchoice Assurance, Inc. v. McVeigh*, 547 U.S. 677 (2006). *Empire* reinforced *Grable*’s distinction between a mere federal issue and a *substantial* federal issue. *Empire* involved “reimbursement claims when a [federal healthcare] Plan beneficiary, injured in an accident, whose medical bills have been paid by the Plan administrator,

recovers damages . . . in a state-court tort action against a third party alleged to have caused the accident.” 547 U.S. at 682. When the beneficiary’s underlying tort suit settled, the Plan’s healthcare carrier sued in federal court for reimbursement of the amount it had previously paid for the beneficiary’s medical care. Holding that there was no “arising under” jurisdiction for the state law subrogation claim, the Court found the circumstances of the *Empire* case to be “poles apart” from its earlier opinion in *Grable*, specifically regarding the weight of the embedded federal issue. 547 U.S. at 700.

*Grable* involved the notice standards of a federal statute, the standard for notice was unresolved in the case law, and its resolution was dispositive of the case and would be controlling in other cases. *Empire*, 547 U.S. at 699-700; *Grable*, 545 U.S. at 315-16. The *Empire* Court thus distinguished *Grable* this way: “*Grable* presented a nearly pure issue of law, one that could be settled once and for all and thereafter would govern numerous tax sale cases. In contrast, *Empire*’s reimbursement claim . . . is fact-bound and situation-specific.” *Empire*, 547 U.S. at 700-01 (citations omitted). Neither case thus turned on the mere existence of an embedded federal issue; rather, the “disputed and substantial” nature of the federal issue in each case controlled whether federal “arising under” jurisdiction existed. The *Empire* Court explained that a *substantial* federal question really is required to support “arising under” jurisdiction: “In sum, *Grable* emphasized that it takes more than a federal element



'to open the "arising under" door.' This case cannot be squeezed into the slim category *Grable* exemplifies." *Id.* at 701 (quoting *Grable*, 545 U.S. at 313).

**2. *Grable* also confirmed that consideration of the federal-state balance is an independent element of the "arising under" standard.**

Respect for the appropriate balance of state and federal courts is a fundamental principle in any analysis of federal court jurisdiction. *See, e.g., Ins. Corp. of Ireland, Ltd. v. Compagnie des Bauxites de Guinee*, 456 U.S. 694, 701-02 (1982) (reciting the axiom that "federal courts are courts of limited jurisdiction"); *Victory Carriers, Inc. v. Law*, 404 U.S. 202, 211-12 (1971) ("The power reserved to states under the Constitution to provide for determination of controversies in their courts, may be restricted only by the action of Congress in conformity to the judiciary sections of the Constitution. Due regard for the rightful independence of state governments, which should actuate federal courts, requires that they scrupulously confine their own jurisdiction to the precise limits which [a federal] statute has defined."). That long-standing respect for basic federalism is borne out in the *Grable* standard.

Even if there is a disputed and substantial federal issue embedded in a state law claim, that is not the end of the inquiry. "Arising under" jurisdiction is proper "only if federal jurisdiction is consistent with



congressional judgment about the sound division of labor between state and federal courts. . . ." *Grable*, 545 U.S. at 313-14. The *Grable* Court held that consideration of the federal-state balance is an independent element that acts as a "possible veto" of "arising under" jurisdiction even when there is a substantial federal issue present. *Id.* at 313.

Because "arising-under jurisdiction to hear a state-law claim always raises the possibility of upsetting the state-federal line drawn (or at least assumed) by Congress, the presence of a disputed federal issue and the ostensible importance of a federal forum are never necessarily dispositive; there must always be an assessment of any disruptive portent in exercising federal jurisdiction." *Grable*, 545 U.S. at 314; *see also Merrell Dow*, 478 U.S. at 810 ("We have consistently emphasized that, in exploring the outer reaches of § 1331, determinations about federal jurisdiction require sensitive judgments about congressional intent, judicial power, and the federal system."); *Franchise Tax Bd.*, 463 U.S. at 8 (explaining that the appropriateness of federal "arising under" jurisdiction can be evaluated only after considering the "welter of issues regarding the interrelation of federal and state authority and the proper management of the federal judicial system").

Applying that analysis to the specific title case before it, the *Grable* Court held that exercising federal jurisdiction would not upset the balance between state and federal courts because it would arise so rarely: "because it will be the rare state title case that

raises a contested matter of federal law, federal jurisdiction to resolve genuine disagreement over federal tax title provisions will portend only a microscopic effect on the federal-state division of labor." *Grable*, 545 U.S. at 315.

*Empire* reiterates *Grable*'s federalism inquiry. The *Empire* Court acknowledged that the United States no doubt "has an overwhelming interest in attracting able workers to the federal workforce, and in the health and welfare of the federal workers upon whom it relies to carry out its functions. But those interests, we are persuaded, do not warrant turning into a discrete and costly 'federal case' an insurer's contract-derived claim to be reimbursed from the proceeds of a federal worker's state-court-initiated tort litigation." 547 U.S. at 701.

*Grable*'s discussion of the federalism element in *Merrell Dow* reflects the Court's concern about the opening of floodgates. The *Grable* Court focused on the sheer volume of potential state cases that would come within federal court jurisdiction if a state claim's reliance on federal standards were sufficient to support "arising under" jurisdiction. See *Grable*, 545 U.S. at 318 (explaining the need to keep "garden variety state tort law" out of federal court). Because violation of federal statutes and regulations is commonly given negligence *per se* effect in state tort proceedings, the Court noted, a "general rule of exercising federal jurisdiction over state claims resting on federal mislabeling and other statutory violations would thus have heralded a potentially enormous

shift of traditionally state cases into federal courts.” *Id.* at 318-19 (citing Restatement (Third) of Torts § 14, Cmt. a (Tentative Draft No. 1, 2001); W. Page Keeton, PROSSER AND KEETON ON LAW OF TORTS § 36, p. 221, n.9 (5th ed. 1984)).

Under the *Grable* standard consideration of the federal-state balance is a separate, independent component of “arising under” jurisdiction, and it demands more than mere identification of a federal interest.

### **III. Under the *Grable* standard, legal malpractice claims do not come within “arising under” jurisdiction.**

The Federal Circuit departed markedly from the *Grable* standard in *Air Measurement* and *Immunocept*. The Federal Circuit ignored the requirement that the federal issue be disputed and substantial by holding that the federal issue merely needs to be a “necessary element” of the state claim. *Air Measurement*, 504 F.3d at 1269. It also wholly failed to consider the “balance of federal and state judicial responsibilities,” though the *Grable* Court held that consideration of federalism is not only required but acts as a “possible veto” to federal court jurisdiction even when there is a substantial federal issue at stake. *Grable*, 545 U.S. at 313. The Supreme Court of Texas strictly followed the Federal Circuit’s reformulated and erroneous standard in holding that Minton’s state law legal malpractice claims come within the federal courts’ exclusive “arising under” jurisdiction. App. 24-26.

This Court should reverse the judgment in this case and hold that state legal malpractice claims arising out of underlying patent representation do not come within the federal courts' original "arising under" jurisdiction. Such a result would rein in the confusion caused by the Federal Circuit's improper departure from the *Grable* standard and reaffirm that the mere existence of a disputed federal issue is never sufficient to support "arising under" jurisdiction. It would bring additional clarity to the "arising under" jurisprudence by announcing a firm rule that the resolution of a purely hypothetical federal issue, like the "case within a case" element of legal malpractice claims, can never be sufficiently substantial to support "arising under" jurisdiction. Finally, it would confirm for courts on a going-forward basis that the balance of federal and state judicial responsibilities requires a more searching analysis than simply identifying that some federal interest exists.

**A. The Federal Circuit standard disregards both the substantiality requirement and the proper balance of state and federal courts.**

- 1. The Federal Circuit standard conflates the requirement that the federal issue be substantial with the requirement that it be necessary.**

The Federal Circuit standard improperly disregards the requirement that the embedded federal issue be not only *necessary* to the state claim but also

*substantial*, and instead conflates the two concepts. In assessing whether the federal issue in *Air Measurement* was disputed and substantial, the Federal Circuit stated that “patent infringement is disputed, for there is no concession by Akin Gump that the prior SCBA litigants infringed Air Measurement’s patents, and the issue is substantial, for it is a necessary element of the malpractice case.” 504 F.3d at 1272. Under that mistaken standard, a necessary federal issue is *ipso facto* a substantial federal issue. In other words, necessary *equals* substantial. The Federal Circuit thus writes the substantiality requirement out of the *Grable* standard and applies a new standard, contrary to *Grable*, where “the mere need to apply federal law in a state-law claim will suffice to open the ‘arising under’ door.” 545 U.S. at 313.

The Supreme Court of Texas made the same error of conflating necessity and substantiality: “Therefore, because the success of Minton’s malpractice claim is reliant upon the viability of the experimental use exception as a defense to the on-sale bar, we hold it is a substantial federal issue satisfying the third prong of the *Grable* inquiry.” App. 20. The court’s discussion of post-*Air Measurement* decisions highlights that the error truly is a departure from the *Grable* standard and its distinct requirement that the federal issue be substantial:

Following *Grable*, other courts have deemed federal patent issues substantial when the determination of the patent issue establishes



the success or failure of an overlying state-law claim. *See, e.g., USPPS, Ltd. v. Avery Dennison Corp.*, 647 F.3d 274, 280-82 (5th Cir. 2011) (holding that the state-law claims of fraud and breach of fiduciary duty in connection with a patent application presented a substantial federal patent issue because the causation element required the plaintiff to prove the underlying patentability of its invention); *Warrior Sports, Inc. v. Dickinson Wright, P.L.L.C.*, 631 F.3d 1367, 1372 (Fed. Cir. 2011) (holding that in order for the plaintiff to prove its case-within-a-case in the legal malpractice suit, the state-based malpractice action presented a substantial federal patent issue because it required a resolution on the merits of the patent infringement claims, which were not addressed by the federal district court in the underlying patent infringement litigation); *Davis v. Brouse McDowell, L.P.A.*, 596 F.3d 1355, 1361-62 (Fed. Cir. 2010), *cert. denied*, 131 S. Ct. 118 (2010) (holding that a state-based legal malpractice action presented a substantial federal patent issue where no patent had actually issued because of the attorney's alleged failure to timely file the patent application).

App. 18-19.

Under that garbled standard, any state law claim with a necessary federal issue would come within “arising under” jurisdiction, irrespective of whether the federal issue was “fact-based and



situation-specific,” or involves only application of specific facts to well-settled law, or involves no precedential impact beyond the specific parties to the suit. Far from capturing only a “slim category” of claims, *Empire*, 547 U.S. at 701, “arising under” jurisdiction under that standard captures essentially every state law malpractice claim arising out of underlying federal representation, because all such cases include the “case within a case” causation inquiry as a necessary element.<sup>6</sup>

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<sup>6</sup> In just the last 12 years, Texas appellate courts have issued opinions in the following legal malpractice cases arising from underlying federal representation, virtually all of which would now be within the jurisdiction of the federal courts under the Federal Circuit’s reasoning: *Buffington v. Sharp*, \_\_\_ S.W.3d \_\_\_, 2012 WL 3758098 (Tex. App. – Houston [14th Dist.] 2012, pet. filed) (arising from bankruptcy proceeding); *In re Haynes & Boone, L.L.P.*, 376 S.W.3d 839 (Tex. App. – Houston [1st Dist.] 2012, orig. proceeding) (arising from antitrust action); *Wadhwa v. Goldsberry*, 2012 WL 682223 (Tex. App. – Houston [1st Dist.] Mar. 1, 2012, no pet.) (mem. op.) (arising from federal habeas corpus proceeding); *Singh v. Duane Morris, L.L.P.*, 338 S.W.3d 176 (Tex. App. – Houston [14th Dist.] 2011, pet. denied) (arising from trademark litigation); *Nabors v. McColl*, 2010 WL 255968 (Tex. App. – Dallas Jan. 25, 2010, pet. denied) (mem. op.) (arising from federal criminal representation); *Inliner Americas, Inc. v. MaComb Funding Group, L.L.C.*, 348 S.W.3d 1 (Tex. App. – Houston [14th Dist.] 2010, pet. denied) (arising from patent infringement action); *Grimes v. Reynolds*, 252 S.W.3d 554 (Tex. App. – Houston [14th Dist.] 2008, no pet.) (arising from federal sexual harassment action); *Renteria v. Myers*, 2008 WL 2078617 (Tex. App. – Fort Worth May 15, 2008, no pet.) (mem. op.) (arising from federal criminal case); *Bustos v. Schwabe, Williamson & Wyatt, P.C.*, 2008 WL 182932 (Tex. App. – San Antonio Jan. 23, 2008, pet. denied) (mem. op.), *cert. denied*, 129 S. Ct. 2835 (2009) (arising

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from federal securities litigation); *Stromberger v. Law Offices of Windle Turley, P.C.*, 2007 WL 2994643 (Tex. App. – Dallas Oct. 16, 2007, no pet.) (mem. op.) (arising from federal court FDIC litigation); *Bullock v. McLean*, 2008 WL 3867644 (Tex. App. – Corpus Christi Aug. 21, 2008, no pet.) (mem. op.) (arising from federal habeas corpus petition); *Red v. Doherty*, 2007 WL 2066182 (Tex. App. – Austin July 20, 2007, pet. denied) (mem. op.) (arising from adversary proceeding in bankruptcy); *Geo-Chevron Ortiz Ranch #2 v. Woodworth*, 2007 WL 671340 (Tex. App. – San Antonio Mar. 7, 2007, pet. denied) (mem. op.) (arising from federal securities fraud action); *Estate of Whitsett v. Junell*, 218 S.W.3d 765 (Tex. App. – Houston [1st Dist.] 2007, no pet.) (arising from claims pursued in Bankruptcy proceeding); *Fleming v. Ahumada*, 193 S.W.3d 704 (Tex. App. – Corpus Christi 2006, no pet.) (arising from bankruptcy case); *Butler v. Mason*, 2006 WL 3747181 (Tex. App. – Eastland Dec. 21, 2006, pet. denied) (mem. op.), *cert. denied*, 552 U.S. 1024 (2007) (arising from failing to timely file federal writ of habeas corpus); *Falby v. Percely*, 2005 WL 1038776 (Tex. App. – Beaumont May 5, 2005, no pet.) (mem. op.) (same); *Indus. Clearinghouse, Inc. v. Jackson Walker, L.L.P.*, 162 S.W.3d 384 (Tex. App. – Dallas 2005, pet. denied) (arising from bankruptcy action); *Alexander v. Turtter & Assocs., Inc.*, 146 S.W.3d 113 (Tex. 2004) (arising from bankruptcy adversarial proceeding); *Wright v. Verner, Lüpfert, Bernhard, McPherson and Hand, Chartered*, 2005 WL 497264 (Tex. App. – Houston [1st Dist.] Mar. 3, 2005, no pet.) (mem. op.) (arising from qui tam action under Federal False Claims Act); *Miller v. Brewer*, 118 S.W.3d 896 (Tex. App. – Amarillo 2003, no pet.) (arising from federal employment discrimination suit); *Jackson v. Kincaid*, 122 S.W.3d 440 (Tex. App. – Corpus Christi 2003, pet. granted, judgment vacated, remanded by agreement) (arising from bankruptcy action); *Deutsch v. Hoover, Bax & Slovacek, L.L.P.*, 97 S.W.3d 179 (Tex. App. – Houston [14th Dist.] 2002, no pet.) (same); *Fields v. Gendry & Sprague, P.C.*, 2002 WL 1906374 (Tex. App. – San Antonio Aug. 21, 2002, pet. denied) (mem. op.) (same); *Stangel v. Perkins*, 87 S.W.3d 706 (Tex. App. – Dallas 2002, no pet.) (same); *Griggs v. Wood*, 2001 WL 987906 (Tex. App. – Houston [14th Dist.] Aug. 30, 2001, no pet.) (arising from ERISA action); *Wargo v. Cloutman*, 2001 WL 732003 (Tex.

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## 2. The Federal Circuit standard overstates the federal interest.

The Federal Circuit standard not only ignores the substantiality requirement, it also wholly fails to analyze the proper balance of state and federal interests. Indeed, it recognizes no state interests at all. The Federal Circuit simply announced that there is a strong federal interest in adjudicating patent infringement claims, and that was the end of the federalism inquiry. *Air Measurement*, 504 F.3d at 1272.

The Supreme Court of Texas strictly followed the Federal Circuit standard and likewise failed to consider any state interest at all. The Court first explained that there was a federal interest in the

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App. – Dallas June 29, 2001, no pet.) (arising from federal civil rights suit); *Eiland v. Turpin, Smith, Dyer, Saxe & McDonald*, 64 S.W.3d 155 (Tex. App. – El Paso 2001, no pet.) (arising from bankruptcy action); *Brents v. Haynes & Boone, L.L.P.*, 53 S.W.3d 911 (Tex. App. – Dallas 2001, pet. denied) (arising from federal discrimination action); *Manning v. Jenkins & Gilchrist, P.C.*, 2001 WL 925738 (Tex. App. – El Paso Aug. 16, 2001, no pet.) (mem. op.) (arising from federal sexual discrimination and harassment action); *Swinehart v. Stubbeman, McRae, Sealy, Laughlin & Browder, Inc.*, 48 S.W.3d 865 (Tex. App. – Houston [14th Dist.] 2001, pet. denied) (arising from bankruptcy action); *Manderscheid v. Cogdell*, 2000 WL 233154 (Tex. App. – Houston [1st Dist.] Mar. 2, 2000, no pet.) (arising from federal criminal suit); *Alpha Pay Phones, Ltd. III v. Mankoff, Hill, Held & Metzger, P.C.*, 2000 WL 688176 (Tex. App. – Dallas 2000, no pet.) (mem. op.) (arising from bankruptcy action); *Muecke v. Hallstead*, 25 S.W.3d 221 (Tex. App. – San Antonio 2000, no pet.) (*en banc*) (same); *Chambers v. Leubarg*, 2000 WL 217879 (Tex. App. – Austin Feb. 25, 2000, no pet.) (mem. op.) (arising from federal employment discrimination-retaliation action).

adjudication of patent issues: "We agree with the Federal Circuit that when the validity of a patent is questioned, even if within the context of a state-based legal malpractice claim, the federal government and patent litigants have an interest in the uniform application of patent law by courts well-versed in that subject matter." App. 24. As the Federal Circuit had done, that was the end of the Supreme Court of Texas' federalism inquiry. There was no discussion at all of state interests or the potential disruption of the state-federal balance if such legal malpractice claims were swept into federal court.

As a threshold matter, the Federal Circuit standard overstates the federal interest because only hypothetical patent infringement, not actual patent infringement, is decided in legal malpractice cases. The dissent in the Supreme Court of Texas correctly noted that the federal issue "is collateral, not basic. This is a legal malpractice case, litigated after final judgment in the original, federal case. Resolution of the malpractice claim in question does not impact any live patent law claims. Moreover, it is unlikely that the legal malpractice opinions of Texas courts will in any way disrupt the uniformity of patent law that Congress sought by enacting [28 U.S.C. § 1338]; on the merits of actual patent lawsuits, federal courts will no doubt look first to federal patent precedents, not Texas legal malpractice cases." App. 38 (citations omitted). The Supreme Court of Nebraska, in a pair of cases decided before and after *Air Measurement*, held that state law malpractice claims belong in state court for precisely that reason. *New Tek Mfg., Inc. v.*



*Beehner*, 702 N.W.2d 336, 346 (Neb. 2005) (“*New Tek I*”) (noting that “the federal government has no interest in hypothetical determinations regarding an unenforceable patent”); *New Tek Mfg., Inc. v. Beehner*, 751 N.W.2d 135, 144 (Neb. 2008) (“*New Tek II*”) (same).

But in addition, the fact that the embedded federal issue relates to patents is not a magical entrée to federal court. First, the statutory basis for “arising under” jurisdiction, 28 U.S.C. § 1338(a), is not limited to patent matters. Interpretation of the “arising under” provision for patent law (and plant variety protection, copyrights and trademarks) in section 1338 is identical to interpretation of “arising under” language in the general federal question provision of 28 U.S.C. § 1331. *Christianson*, 486 U.S. at 808. Moreover, this Court has declined to treat patent issues as unique for jurisdiction purposes, and has refused to construe federal jurisdictional rules differently where patents are concerned, notwithstanding that “one of Congress’ objectives in creating a Federal Circuit with exclusive jurisdiction over certain patent cases was ‘to reduce the widespread lack of uniformity and uncertainty of legal doctrine that exist[ed] in the administration of patent law.’” *Id.* at 813 (quoting H.R. Rep. No. 97-312 at 23 (1981)). Most recently, this Court rejected the notion that “we should interpret the phrase ‘arising under’ differently in ascertaining the Federal Circuit’s jurisdiction. In respondent’s view, effectuating Congress’s goal of ‘promoting the uniformity of patent law’ . . . requires

us to interpret §§ 1295(a)(1) and 1338(a) to confer exclusive appellate jurisdiction on the Federal Circuit. . . . We do not think this option is available. Our task here is not to determine what would further Congress's goal of ensuring patent law uniformity, but to determine what the words of the statute must fairly be understood to mean." *Holmes Group*, 535 U.S. at 832.

**3. The Federal Circuit standard ignores the substantial state interests at stake in legal malpractice suits.**

In addition to overstating the federal interest, the Federal Circuit standard wholly ignores the important state interests at stake in legal malpractice cases. One noted treatise explained that "arising under" jurisdiction allows only a narrow category of state law claims into federal court because "the overzealous exercise of federal question jurisdiction would threaten the legitimate interest of the states in having their courts interpret state law. Absent diversity of citizenship jurisdiction, there is no warrant for depriving state courts of their authority to shape state law. Put bluntly, the federal courts are too busy and the state interests are too important to countenance the broad placement of state-law centered litigation in federal fora absent some need." Charles Alan Wright *et al.*, FEDERAL PRACTICE AND PROCEDURE § 3562 at 180.



Indeed, the Federal Circuit's broad sweep of legal malpractice cases into federal court with no federalism analysis at all has been widely criticized precisely because such cases implicate important state interests in the regulation of lawyer conduct. *See, e.g., Singh v. Duane Morris L.L.P.*, 538 F.3d 334, 340 (5th Cir. 2008) ("Not only is the federal interest insubstantial, but federal jurisdiction over this state-law malpractice claim would upend the balance between federal and state judicial responsibilities. . . . Legal malpractice has traditionally been the domain of state law, and federal law rarely interferes with the power of state authorities to regulate the practice of law."); *Danner, Inc. v. Foley & Lardner, L.L.P.*, 2010 WL 2608294 at \*3, 4 (D. Or. June 23, 2010) ("[J]ust because an element that is essential to a particular theory might be governed by federal patent law does not mean that the entire claim 'arises under' patent law" and "a contrary interpretation risks sweeping all legal malpractice cases involving a federal matter into federal court, despite the fact that legal malpractice is an area of law traditionally handled by the states."); *Warrior Sports, Inc. v. Dickinson Wright, P.L.L.C.*, 666 F. Supp. 2d 749, 751 (E.D. Mich. 2009), *vacated*, 631 F.3d 1367 (Fed. Cir. 2011) (noting that the court "cannot see how it may adjudicate this case without disturbing the congressionally approved balance of federal and state judicial responsibilities," because using "case-within-a-case analytical framework to sweep an entire class of state-law claims into

federal law's preemptive reach would unavoidably result in a case of the tail wagging the dog").

This Court has long recognized the states' right to regulate the practice of law, and in particular to set and control attorney standards of practice. *See, e.g., Goldfarb v. Va. State Bar*, 421 U.S. 773, 792 (1975) ("We recognize that the States have a compelling interest in the practice of professions within their boundaries, and that as part of their power to protect the public health, safety, and other valid interests they have broad power to establish standards for licensing practitioners and regulating the practice of professions. . . . The interest of the States in regulating lawyers is especially great since lawyers are essential to the primary governmental function of administering justice, and have historically been 'officers of the courts.'"). That substantial interest is given no weight at all under the Federal Circuit standard.

A plain analysis of the component parts of a legal malpractice claim demonstrates fairly starkly that the balance of state and federal interests is upended if those cases are swept into federal court. On the federal side of the balance is the hypothetical "case within a case" causation element: would the plaintiff have prevailed in the underlying case but for the lawyer's negligence. *Alexander*, 146 S.W.3d at 117.

By comparison, on the state side of the balance are all of the other component parts of a legal

malpractice claim; in Texas, for example, those component parts could include any or all of the following:

- Whether an attorney-client relationship was actually created between the parties to the legal malpractice claims;<sup>7</sup>
- Whether the requisite privity exists between plaintiff and defendant, and whether the defendant lawyer owes a duty to the plaintiff.<sup>8</sup>
- What is the applicable standard of professional care, and did the lawyer breach it in the underlying representation.<sup>9</sup>
- Whether the plaintiff proffered competent and admissible expert testimony as to the standard of care, causation, and damages elements of the claim.<sup>10</sup>

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<sup>7</sup> See *Sotelo v. Stewart*, 281 S.W.3d 76, 80 (Tex. App. – El Paso 2008, pet. denied); *Tanax, Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 105 S.W.3d 244, 254 (Tex. App. – Houston [14th Dist.] 2003, pet. denied); *Vinson & Elkins v. Moran*, 946 S.W.2d 381, 405 (Tex. App. – Houston [14th Dist.] 1997, writ dismissed).

<sup>8</sup> See *Smith v. O'Donnell*, 288 S.W.3d 417, 422-23 (Tex. 2009); *Belt v. Oppenheimer, Blend, Harrison & Tate, Inc.*, 192 S.W.3d 780, 784 (Tex. 2006); *Barcelo v. Elliott*, 923 S.W.2d 575, 577 (Tex. 1996).

<sup>9</sup> See *Cosgrove v. Grimes*, 774 S.W.2d 662, 665 (Tex. 1989).

<sup>10</sup> See *Alexander*, 146 S.W.3d at 119-20; *Burrow v. Arce*, 997 S.W.2d 229, 235 (Tex. 1999); *Zenith Star Ins. Co. v. Wilkerson*, 150 S.W.3d 525, 530 (Tex. App. – Austin 2004, no pet.); *Hoover v. Larkin*, 196 S.W.3d 227 (Tex. App. – Houston [1st Dist.] 2006, pet. denied).

- The relation of any settlement in the underlying case to the true value of the case.<sup>11</sup>
- Whether any judgment in the underlying case would have been collectible.<sup>12</sup>
- Whether the lawyers committed a serious breach of fiduciary duty and what portion, if any, of their fee should be forfeited because of that breach.<sup>13</sup>

Under the Federal Circuit standard, those many aspects of a legal malpractice claim, which should rightly be handled by state courts, are given no weight at all. Instead, the single federal issue – the hypothetical “case within a case” – is the sole determinant.

**B. This Court should reconfirm the *Grable* standard and clarify the appropriate analysis of “arising under” jurisdiction for legal malpractice claims.**

This Court should reverse the judgment here for both case-specific and big-picture reasons. On a case-specific basis, Minton’s legal malpractice claims do not present a substantial issue of federal law. The

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<sup>11</sup> See *Keck, Mahin & Cate v. Nat’l Union Fire Ins. Co. of Pittsburgh*, 20 S.W.3d 692, 703 (Tex. 2000).

<sup>12</sup> See *Akin Gump Strauss Hauer & Feld, L.L.P. v. Nat’l Dev. and Research Corp.*, 299 S.W.3d 106, 113-114 (Tex. 2009).

<sup>13</sup> See *Burrow v. Arce*, 997 S.W.2d at 245-246.

experimental use exception depends on specific facts regarding whether Minton's *TEXCEN* lease had an experimental purpose as shown by objective, contemporaneous evidence, and that sort of "fact-bound and situation-specific" inquiry is simply not substantial. *See Empire*, 547 U.S. at 701. In addition, exercising federal jurisdiction over Minton's legal malpractice claim disrupts the federal-state court balance because there is only a marginal federal interest in litigating hypothetical patent infringement, while regulation of attorneys is a significant state interest.

This Court should also clarify the appropriate standard for "arising under" jurisdiction in the context of state law legal malpractice claims. At a minimum, this Court should reiterate the *Grable* standard, emphasize that the federalism component requires a searching analysis of the balance between state and federal concerns, and confirm that the substantiality component of the *Grable* standard is not satisfied whenever the embedded federal issue is a necessary element of the state law claim. Whether an embedded federal issue is substantial depends on the nature of the issue itself, not simply on whether it is necessary to the state law claim.

The Court here also has the opportunity to announce a bright-line rule relating to "arising under" jurisdiction: something that has proved elusive through the years. This Court should hold that, as a matter of law, a state law legal malpractice claim arising out of an underlying patent representation (or any federal representation) does not present a



substantial federal issue sufficient to support “arising under” jurisdiction even when the “case within a case” causation element requires that the plaintiff prove he would have prevailed in the underlying federal matter but for his attorney’s negligence. Stated another way, the “case within a case” causation element of a legal malpractice claim is never a sufficiently substantial federal issue to support “arising under” jurisdiction.

**C. A bright-line standard for state law legal malpractice claims is desirable for a number of reasons.**

There are at least three significant reasons why a bright-line standard rejecting “arising under” jurisdiction over state law legal malpractice cases is appropriate and desirable.

**1. Any “case within a case” patent issues are purely hypothetical.**

First, holding that the federal issue in legal malpractice claims is not sufficiently substantial to support “arising under” jurisdiction recognizes the unique nature of the “case within a case” doctrine. Determination of the legal malpractice claims involves only a hypothetical determination of patent infringement. Here, the validity of Minton’s patent was finally determined in the underlying Patent Litigation against the NASD, and nothing in the subsequent legal malpractice case could change that.



No actual patent rights are ever adjudicated in such cases, and any patent decisions made by state courts in the course of deciding legal malpractice cases would not be precedential. *See, e.g., Adventure Outdoors, Inc. v. Bloomberg*, 552 F.3d 1290, 1301 (11th Cir. 2008) (finding no “arising under” jurisdiction over state law claim with embedded issue of federal firearm regulation: “In addition, the state court interpretation of the gun statutes will not be controlling in numerous other cases because it will not have precedential effect in the federal system.”).

Indeed, Minton’s claims demonstrate just how hypothetical the “case within a case” element can be. Minton contends that if the Lawyer Defendants had timely raised the experimental use doctrine, that would have avoided early dismissal in the Patent Litigation, and the NASD would have settled Minton’s infringement claims for \$100 million. *See App. 53*. That contention involves not just resolution of the hypothetical patent issue (would the experimental use doctrine have been sufficient to avoid dismissal). It also involves a hypothetical determination of whether the NASD would have been willing to pay Minton \$100 million to settle his infringement claims.

## **2. Clarity is important in this muddled area of law.**

Second, adopting a bright-line standard regarding legal malpractice claims will bring welcome clarity and certainty to a muddled area of “arising

under" jurisdiction. In the few years since the Federal Circuit adopted its standard in *Air Measurement*, there has been significant disagreement among both state and federal courts regarding which state law legal malpractice claims belong in federal court<sup>14</sup> and

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<sup>14</sup> The following cases found "arising under" jurisdiction over legal malpractice claims arising out of patent representation: *USPPS, Ltd. v. Avery Dennison Corp.*, 647 F.3d 274 (5th Cir. 2011); *Warrior Sports, Inc. v. Dickinson Wright, PLLC*, 631 F.3d 1367 (Fed. Cir. 2011); *Premier Networks, Inc. v. Stadheim and Grear, Inc.*, 918 N.E.2d 1117 (Ill. Ct. App. 2009); *Tomar Elec., Inc. v. Watkins*, 2009 WL 2222707 (D. Ariz. July 23, 2009); *Byrne v. Wood, Herron & Evans, L.L.P.*, 2008 WL 3833699 (E.D. Ky. Aug. 13, 2008); *LaBelle v. McGonagle*, 2008 WL 3842998 (D. Mass. Aug. 15, 2008); *Rockwood Retaining Walls, Inc. v. Patterson, Thuente, Skaar & Christensen, P.A.*, 2009 WL 5185770 (D. Minn. Dec. 22, 2009); *Davis v. Brouse McDowell, L.P.A.*, 596 F.3d 1355 (Fed. Cir. 2010), *cert. denied*, 131 S.Ct. 118 (2010); *Landmark Screens, L.L.C. v. Morgan, Lewis, Bockius, L.L.P.*, 107 Cal. Rptr. 3d 373, 183 Cal. App. 4th 238 (Cal. Ct. App. 2010), *cert. denied*, 131 S.Ct. 1472 (2011); *Lockwood v. Sheppard, Mullin, Richter & Hampton*, 93 Cal. Rptr. 3d 220, 173 Cal. App. 4th 675 (Cal. Ct. App. 2009); *Chopra v. Townsend, Townsend and Crew, L.L.P.*, 2008 WL 413944 (D. Colo. Feb. 13, 2008); *Lans v. Adducci Mastriani & Schaumberg, L.L.P.*, 786 F. Supp. 2d 316 (D.D.C. 2011); *Parus Holdings, Inc. v. Banner & Witcoff, Ltd.*, 585 F. Supp. 2d 995 (N.D. Ill. 2008); *Max-Planck-Gesellschaft ZUR Foerderung Der Wissenschaften, E.V. v. Wolf Greenfield & Sacks, PC*, 661 F. Supp. 2d 125 (D. Mass. 2009); *Lemkin v. Hahn, Loeser & Parks, L.L.P.*, 2010 WL 1881962 (Ohio Ct. App. May 11, 2010); *Carter v. ALK Holdings, Inc.*, 605 F.3d 1319 (Fed. Cir. 2010); *Cold Spring Harbor Lab v. Ropes & Gray, L.L.P.*, 762 F. Supp. 2d 543 (E.D.N.Y. 2011); *see also Reserve Mgmt. Co., Inc. v. Willkie Farr & Gallagher L.L.P.*, 2012 WL 4378058 (S.D.N.Y. Sept. 25, 2012) (finding exclusive "arising under" jurisdiction over legal malpractice claims arising out of securities representation).

which do not.<sup>15</sup> A definitive, bright-line standard for those cases will resolve confusion in an area of law that is growing, because “the number of patent-related malpractice cases is on the rise.” *Byrne v. Wood, Herron & Evans, L.L.P.*, 676 F.3d 1024, 1038 (Fed. Cir. 2012) (en banc) (O’Malley, J., dissenting) (citing Christopher G. Wilson, *Embedded Federal Questions, Exclusive Jurisdiction, and Patent-Based Malpractice Claims*, 51 WM. & MARY L. REV. 1237, 1240 (2009) (“[A]ggrieved clients are bringing more claims against patent attorneys”) citing Am. Bar Ass’n Standing Comm. on Lawyers’ Prof’l Liab., *Profile of*

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<sup>15</sup> The following cases found no “arising under” jurisdiction over legal malpractice claims arising out of patent representation: *Genelink Biosciences, Inc. v. Colby*, 722 F. Supp. 2d 592 (D. N.J. 2010), *appeal dismissed*, 423 Fed. App’x 977 (Fed. Cir. 2011); *Danner, Inc. v. Foley & Lardner, L.L.P.*, 2010 WL 2608294 (D. Or. June 23, 2010); *Eddings v. Glast, Phillips & Murray*, 2008 WL 2522544 (N.D. Tex. June 25, 2008); *Haase v. Abraham, Watkins, Nichols, Sorrels, Agosto and Friend, L.L.P.*, 2010 WL 519747 (E.D. Tex. Feb. 9, 2010); *New Tek Mfg., Inc. v. Beehner*, 751 N.W.2d 135 (Neb. 2008); *Revolutionary Concepts, Inc. v. Clements Walker P.L.L.C.*, 2010 WL 877508 (N.C. Super. Mar. 9, 2010); *Taylor v. Kochanowski*, 2008 U.S. Dist. LEXIS 20430 (E.D. Mich. Mar. 14, 2008); *E-Pass Techs., Inc. v. Moses & Singer, L.L.P.*, 117 Cal. Rptr. 3d 516, 189 Cal. App. 4th 1140 (Cal. Ct. App. 2010); *Antiballistic Sec. and Protection, Inc. v. Baker, Donelson, Bearman, Caldwell & Berkowitz, PC*, 789 F. Supp. 2d 90 (D.D.C. 2011); *James H. Anderson, Inc. v. Johnson*, 2009 WL 2244622 (N.D. Ill. June 27, 2009); *Magnetek, Inc. v. Kirkland and Ellis, L.L.P.*, 954 N.E.2d 803 (Ill. App. Ct. 2011); *see also In re Haynes and Boone, L.L.P.*, 376 S.W.3d 839 (Tex. App. – Houston. [1st Dist.] 2012, orig. proceeding) (finding no “arising under” jurisdiction over legal malpractice claims arising out of antitrust representation).

*Legal Malpractice Claims 2004-2007*, at 4 tbl. 1 (2008)).

**3. Allowing state courts to decide hypothetical patent issues would not threaten the uniformity of patent law.**

Third, allowing the state courts to decide hypothetical patent issues will not unduly threaten the uniformity of patent law. As noted above, only hypothetical patent rights are at issue, so a legal malpractice judgment would have no precedential value regarding any live patent rights. In this case, the district court summary judgment order and the court of appeals opinion affirming the summary judgment both reflect competent, straightforward application of the specific facts to settled patent law principles. JA 208-215; App. 64-73. There is no reason to assume, as the Federal Circuit standard seems to do, that state courts are uniformly incapable of handling such issues. And if a state court erred in deciding such a hypothetical patent issue, that decision would not be binding on any federal court in any subsequent true patent proceeding.

While state courts typically do not have much experience deciding patent matters, they will have the aid and benefit of expert opinions on patent issues presented in the context of legal malpractice cases. State law requires expert opinions on whether the attorney's conduct in an underlying patent infringement suit or patent prosecution met the

standard of care or proximately caused the adverse result. See, e.g., *Zenith Star*, 150 S.W.3d at 530; *Alexander*, 146 S.W.3d at 119-20 (“when the causal link is beyond the jury’s common understanding, expert testimony is necessary.”); see also *Byrne*, 676 F.3d at 1039 (O’Malley, J., dissenting) (noting that, “within the context of a state law malpractice claim,” expert witnesses would opine whether “a hypothetical patent would have issued, or a defense of inequitable conduct might have succeeded. That is like any other malpractice case, where experts are called upon to opine on whether a plaintiff would have fared better if the defendant exercised greater care.”). State courts would therefore not be deciding patent issues without substantive support.

The opinions of the Supreme Court of Nebraska deciding patent issues in the context of a legal malpractice claim are perhaps the best illustration of the negligible impact state courts would have on patent law. The *New Tek* cases involved “a professional negligence action in which the plaintiff’s damage claim is dependent upon the resolution of a hypothetical third-party infringement claim.” *New Tek II*, 751 N.W.2d at 139. The court explained that “the precise question is not whether Orthman Manufacturing infringed on the ’080 patent; rather, the question is whether, absent [the lawyer’s] negligence, New Tek would have been successful in an infringement action against Orthman.” *New Tek I*, 702 N.W.2d at 346. To resolve that “case within a case” question, the state district court “held a ‘*Markman* hearing’ pursuant to



[*Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed. Cir. 1995), *affirmed*, 517 U.S. 370 (1996)], and entered an order construing the '080 patent for purposes of this litigation." *New Tek I*, 702 N.W.2d at 344.

The Supreme Court of Nebraska rejected a contention that the district court should not have held a *Markman* hearing "because state courts are inexperienced in patent claim construction." *Id.* at 347. The court explained that "the fact that patent law does not regularly appear on our docket does not change our responsibility to decide the issues presented to us under the applicable law. It is well established that claim construction is a question of law for a court to decide, and we will faithfully discharge that duty." *Id.* The court therefore decided the patent issue presented in the context of the legal malpractice claim, and in the time since not a single court has cited the *New Tek* opinions on an issue of patent law. The state court thus handled the state law legal malpractice claim, decided the hypothetical patent issue it needed to decide, and the uniformity of patent law was not threatened in any way.

Indeed, one Justice of this Court has observed that, notwithstanding the goal of promoting "uniformity in the development of this area of the law," allowing other courts to decide the occasional patent issue is likely beneficial to the health of patent law as a whole: "An occasional conflict in decisions may be useful in identifying questions that merit this Court's



attention. Moreover, occasional decisions by courts with broader jurisdiction will provide an antidote to the risk that the specialized court may develop an institutional bias." *Holmes Group*, 535 U.S. at 838-39 (Stevens, J., concurring) (citing Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U. L. REV. 1, 25-30, 54 (1989) (evaluating criticism that the Federal Circuit demonstrates a greater pro-patent bias than regional circuits)).

At the end of the day, this Court can review and correct any state court error that truly threatens the body of patent law, and any "concern about the uniformity of interpretation, moreover, is considerably mitigated by the fact that, even if there is no original district court jurisdiction for these kinds of action, this Court retains power to review the decision of a federal issue in a state cause of action." *Merrell Dow*, 478 U.S. at 816.

A bright-line rule excluding state law malpractice cases from "arising under" jurisdiction would therefore bring welcome clarity to the jurisdictional rules, and it would do so without affecting any live patent rights or threatening the uniformity of patent law. Given the rising number of state law legal malpractice claims, this Court should act to resolve the jurisdictional issue clearly and definitively.

**IV. Congressional actions relating to the Federal Circuit and jurisdiction over patent issues do not change the analysis or result here.**

Congress addressed the scope of federal jurisdiction over patent issues when it initially created the Federal Circuit in 1982<sup>16</sup> and again very recently in the Leahy-Smith America Invents Act of 2011.<sup>17</sup> In doing so, Congress deliberately did not change the district courts' original "arising under" jurisdiction as reflected in this Court's opinions over the decades. Nothing in those statutes reflects an intent to change the allocation of jurisdiction between state and federal courts over cases like this.

**A. The Federal Courts Improvement Act of 1982 created the Federal Circuit for uniformity of patent law, but it did not change the existing scope of original "arising under" jurisdiction.**

The Federal Courts Improvement Act of 1982 created the Federal Circuit "to reduce the widespread

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<sup>16</sup> Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 (codified as amended in scattered sections of 2, 5, 7, 10, 15, 16, 18, 19, 22, 25, 26, 28, App., 30, 31, 33, 35, 40, 41, 42 & 50 App. U.S.C.).

<sup>17</sup> Leahy-Smith America Invents Act of 2011, Pub. L. No. 112-29, 125 Stat. 284 (codified in scattered sections of 15, 28, 35, 42, & 51 U.S.C.) (hereafter the "Leahy-Smith America Invents Act").

lack of uniformity and uncertainty of legal doctrine that exist[ed] in the administration of patent law." H.R. Rep. No. 97-312, at 23 (1981). The lack of uniformity in patent law had been identified as a significant problem within the patent system that resulted in "expensive, time-consuming and unseemly" forum shopping for a favorable venue. *See id.* at 20.

Congress' solution was to create the Federal Circuit and grant it exclusive jurisdiction over appeals in which the district court's original jurisdiction was based in whole or in part on 28 U.S.C. § 1338. *See* 28 U.S.C. § 1295. The scope of the Federal Circuit's appellate jurisdiction was therefore defined by the district court's original "arising under" jurisdiction and the existing body of case law construing that statute. As the House Report explains, "[c]ases will be within the jurisdiction of the Court of Appeals for the Federal Circuit in the same sense that cases are said to 'arise under' federal law for purposes of federal question jurisdiction." H.R. Rep. No. 97-312, at 41; *see also Holmes Group*, 535 U.S. at 829 (the "Federal Circuit's jurisdiction is fixed with reference to that of the district court, and turns on whether the action arises under federal patent law"). The definition of the Federal Circuit's jurisdiction thus "did not embrace all cases in which a district court had decided a patent-law question. Instead, it adopted a standard that requires the appellate court to decide whether the jurisdiction of the district court was based, in whole or in part, on a claim 'arising under' the patent

laws." *Christianson*, 486 U.S. at 820 (Stevens, J., concurring).

**B. The Leahy-Smith America Invents Act of 2011 extended federal jurisdiction to patent counterclaims, but it did not otherwise change the scope of original "arising under" jurisdiction.**

Congress very recently passed the Leahy-Smith America Invents Act. Congress explained that the reform was needed "to correct flaws in the system that have become unbearable, and to accommodate changes in the economy and the litigation practices in the patent realm." H.R. Rep. No. 112-98, at 38-39 (2011), *reprinted in* 2011 U.S.C.C.A.N. 67, 68.

One aspect of this legislation was a response to this Court's holding in *Holmes Group*, 535 U.S. at 833-34, that the well-pleaded complaint rule governs the scope of "arising under" jurisdiction, such that the Federal Circuit's appellate jurisdiction extends only to those cases where the patent claim is alleged in the complaint and does not extend to actions in which patent claims are raised in a counterclaim. H.R. Rep. No. 112-98, at 54; H.R. Rep. No. 109-407, at 4-6 (2006).<sup>18</sup> This Court's decision to allow the regional

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<sup>18</sup> The Committee Report for the Leahy-Smith America Invents Act reaffirms and adopts as its own the legislative history for H.R. 2955 from the 109th Congress, H.R. Rep. No. 109-407.

circuits and state courts to decide patent counter-claims may have seemed inconsistent with Congress' intent in creating the Federal Circuit to have a uniform body of patent law, but that is what the jurisdictional statutes provided. *See Holmes Group*, 535 U.S. at 833 ("Our task here is not to determine what would further Congress' goal of ensuring patent-law uniformity, but to determine what the words of the statute must fairly be understood to mean."). Through the Leahy-Smith America Invents Act, Congress abrogated *Holmes Group* in part "and more fully preclud[ed] state court jurisdiction over patent legal claims." H.R. Rep. No. 112-98, at 81.

Congress considered amending the language in 28 U.S.C. § 1338 that grants the district courts their original "arising under" jurisdiction – the language from which the Federal Circuit's appellate jurisdiction is fixed. *See Holmes Group, the Federal Circuit, and the State of Patent Appeals: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Prop. of the H. Comm. on the Judiciary*, 109th Cong., 11-12 (2005) (statement of Edward R. Reines, Chair of Federal Circuit Bar Association Committee to Study *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*) (hereinafter "Hearing"). Professor Arthur Hellman<sup>19</sup> opposed the recommendation of the

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<sup>19</sup> Professor Arthur Hellman previously served as Deputy Executive Director of the Commission on Revision of the Federal Court Appellate System, popularly known as the Hruska Commission, which was one of the first to recommend creating the  
(Continued on following page)



Federal Circuit Bar to change the “arising under” standard, fearing that such an amendment “runs the risk of unsettling the law in ways that no one can fully anticipate.” H.R. Rep. No. 109-407, at 6. Congress reported that Professor Hellman was “especially concerned how this solution would impact existing precedents governing original and removal jurisdiction of the district courts since this language has not been amended for more than half a century.” *Id.*

Other practitioners were likewise concerned that the proposed fix “might unwittingly expand the removal jurisdiction of Federal district courts to the detriment of the States.” *Id.* at 5. They advised Congress not to reopen the scope of “arising under” jurisdiction that is currently governed by this Court’s opinions in *Christianson* and *Merrell Dow*. See Hearing, at 42-43 (statement of Arthur Hellman).

Thus, by leaving the “arising under” jurisdiction language unchanged, Congress chose not to change the jurisdictional reach of the federal courts beyond the counterclaim “fix” for *Holmes Group*. H.R. Rep. No. 109-407, at 6. To preserve the body of precedent

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Federal Circuit. Congress had created the Hruska Commission to study, among other things, the structure and internal procedures of the Federal courts of appeal system. Act of Oct. 13, 1972, Pub. L. No. 92-489, 86 Stat. 807. The Hruska Commission recommended the creation of a national court of appeals in 1975. Comm’n on Revision of the Fed. Court Appellate Sys., Structure and Internal Procedures: Recommendations for Change (1975), reprinted in 67 F.R.D. 195, 236-47 (1975).



for "arising under" jurisdiction, the Act left the first sentence of § 1338 unchanged. Instead, Congress merely rewrote the second sentence of § 1338 to make the jurisdiction exclusive of the state courts. H.R. Rep. No. 112-98, at 159. The Act also amended § 1295 to address *Holmes Group* and provide that the Federal Circuit would have appellate jurisdiction over final judgments from "any civil action arising under, or in any federal court action in which a party has asserted a compulsory counterclaim arising under any Act of Congress relating to patents or plant variety protection." *Id.* at 158-59. The Act also added a new provision, 28 U.S.C. § 1454, to create federal court removal jurisdiction based on a patent or copyright counterclaim. *Id.* at 158.

These amendments thus accomplished Congress' goal of allowing federal court jurisdiction over compulsory patent counterclaims, but they did not otherwise change the existing scope of original "arising under" jurisdiction.

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## CONCLUSION

The decision of the Supreme Court of Texas should be reversed.

Respectfully submitted,

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# **RESPONDENT'S BRIEF**

**In The  
Supreme Court of the United States**

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WREN, L.L.P., JAMES E. WREN, INDIVIDUALLY,  
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INDIVIDUALLY, SLUSSER, WILSON & PARTRIDGE,  
L.L.P., AND MICHAEL E. WILSON, INDIVIDUALLY,  
*Petitioners*

v

VERNON F. MINTON  
*Respondent*

---

On Writ of Certiorari to the  
Supreme Court of Texas

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**RESPONDENT'S BRIEF ON THE MERITS**

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## QUESTION PRESENTED

Did the Texas Supreme Court correctly hold that state courts do not possess subject matter jurisdiction to decide a legal malpractice claim (i) resting entirely on an issue of federal patent law over which the federal courts ordinarily have exclusive subject matter jurisdiction, (ii) when that issue is dispositive, (iii) when its determination could affect other patent cases and, indeed, continuing claims involving the patent application originally at issue in this case, and (iv) when so holding would not disturb Congress's careful balance of federal and state judicial responsibilities in this area?



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## CONSTITUTIONAL AND STATUTORY PROVISIONS

Article 1, § 8 of the United States Constitution provides in pertinent part:

Congress shall have Power...To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.

U.S. Const., art. I, § 8.

Article III, § 2 of the United States Constitution provides in pertinent part:

The judicial Power shall extend to all Cases, in Law and Equity, arising under this Constitution, the Laws of the United States.

U.S. Const., art. III, § 2.

28 U.S.C. § 1331 provides:

The district courts shall have original jurisdiction of all civil actions arising under the Constitution, laws, or treaties of the United States.

28 U.S.C. § 1331 (1980).

28 U.S.C. § 1338, as it was in effect at the time this action was filed, provides:

(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

(b) The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent, plant variety protection or trademark laws.

(c) Subsections (a) and (b) apply to exclusive rights in mask works under chapter 9 of title 17, and to exclusive rights in designs under chapter 13 of title 17, to the same extent as such subsections apply to copyrights.

28 U.S.C. § 1338 (1999)(amended 2011).

28 U.S.C. § 1338, as amended in 2011 by the America Invents Act, provides:

(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. No State court shall have jurisdiction over any claim for relief arising under any Act of

Congress relating to patents, plant variety protection, or copyrights. For purposes of this subsection, the term "State" includes any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the United States Virgin Islands, American Samoa, Guam, and the Northern Mariana Islands.

(b) The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent, plant variety protection or trademark laws.

(c) Subsections (a) and (b) apply to exclusive rights in mask works under chapter 9 of title 17, and to exclusive rights in designs under chapter 13 of title 17, to the same extent as such subsections apply to copyrights.

28 U.S.C. § 1338 (2011).

28 U.S.C. § 1295, in relevant part, as it was in effect at the time this action was filed, provides:

(a) The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction--

(1) of an appeal from a final decision of a district court of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, the District Court of the Virgin Islands, or the District Court for the Northern Mariana

Islands, if the jurisdiction of that court was based, in whole or in part, on Section 1338 of this title, except that a case involving a claim arising under any Acts of Congress relating to copyrights, exclusive rights in mask works, or trademarks and no other claims under Section 1338(a) shall be governed by Sections 1291, 1292, and 1294 of this title.

28 U.S.C. § 1295 (1999)(amended 2011).

28 U.S.C. § 1295, in relevant part, as amended in 2011 by the America Invents Act:

(a) The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction--

(1) of an appeal from a final decision of a district court of the United States, the District Court of Guam, the District Court of the Virgin Islands, or the District Court of the Northern Mariana Islands, in any civil action arising under, or in any civil action in which a party has asserted a compulsory counterclaim arising under, any Act of Congress relating to patents or plant variety protection.

28 U.S.C. § 1295 (2011).

## STATEMENT OF THE CASE

- A. Minton developed the Invention at issue and obtained the '643 Patent.**

Vernon Minton ("Minton") is a computer programmer and an inventor. In 1993, Minton formed a company named "Texas International Stock Exchange, Inc." (TISE) and issued a Preliminary Prospectus for it on or about April 1993. (JA 69). In connection with his interest in trading electronically, Minton learned computer programming on his own and began writing computer software for a program that would later be called TEXTCEN. (JA 69). TEXTCEN would allow security brokers to trade stocks over the Internet. (JA 71; JA Supp. 16).

In 1994 and in the early part of 1995, Minton contacted a number of security brokers to test TEXTCEN. Minton was not a securities broker so he was not authorized to conduct such a test. Minton explained to the various security brokers he consulted that the software should be kept confidential, that the software was incomplete, and that Minton needed to work with a broker who was familiar with current broker requirements for testing software who could test it "under load" to ensure its reliable operation. (JA 69-70).

In late 1994 and the first part of 1995, after initial unsuccessful contacts with brokers, Minton discussed his need to further develop, evaluate, and test TEXTCEN with Gary L. Stark, president of R.M. Stark & Co. (RMST). (JA 70). During these discussions, Minton told Stark that TEXTCEN

"needed to be tested before we would be operational" and that "to get the program operational, we had to test it under load with a brokerage firm." (JA 70).

Prior to March 1995, Minton demonstrated TEXTCEN to NASD, but it failed, and Minton continued to test TEXTCEN. (JA 71-72). After that failure, Stark demanded that Minton "make sure it works" before demonstrating it to NASD again. (JA 72). Despite the incomplete nature of TEXTCEN development and the failure of the demonstration over the internet, Minton and Stark entered into an agreement of lease. (JA 73). Thereafter, the parties continued to test TEXTCEN over the internet, albeit unsuccessfully. (JA 73-79). TEXTCEN never became operational and Minton never received any payment under the lease. (JA 75).

On January 11, 2000, U.S. Patent Number 6,014,643 was issued to Minton (the '643 Patent). The '643 Patent covers Minton's invention of a method and network for trading securities over a public communication network. (JA 79, JA Supp. 1). This method allowed for orders to purchase or sell securities to be gathered and then transmitted over a public communications network where the orders, listed by price and quantity, would then be displayed to individual users on a graphic interface. (JA Supp. 1; 16).



**B. Minton sued NASD and NASDAQ for patent infringement.**

On January 27, 2000, Minton filed suit against the National Association of Securities Dealers, Inc. ("NASD") and later added the NASDAQ Stock Market, Inc. ("NASDAQ"), initially using the patent firm that prosecuted his '643 Patent. (JA 7-16).

NASD and NASDAQ engaged in the business of facilitating the trades of securities by brokers and dealers through stock exchange networks. (JA 20). Minton alleged that one product of theirs, the NASDAQ Workstation II, when used in conjunction with NASD's services, infringed upon claims 1, 2, 3, and 4 of the '643 patent by allowing individuals to directly trade securities on a communications network. Upon first learning of these facts, Minton made repeated requests for NASD to enter into negotiations for and to take a license under the '643 patent. NASD refused to do so and continued to infringe on the '643 patent. (JA 10; 20-21); *See also, Minton v. National Association of Securities Dealers, Inc.*, 226 F.Supp.2d 845, 852-855 (Fed. Cir. 2002).

In the patent infringement case, Minton's patent claims largely survived the NASD and NASDAQ's Markman challenge. *See Minton v. NASD*, 197 F.Supp.2d 699 (E.D. Tex. 2001). NASD and NASDAQ thereafter moved for summary judgment on the ground that Minton's '643 Patent was invalid because of the "on-sale bar" doctrine contained in 35 U.S.C. § 102(b), which states that "an invention is not entitled to a

patent if the invention was ... on sale in this country more than one year prior to the date of the application in the United States." On February 1, 2002, the United States District Court granted NASD's motion for summary judgment on the ground that Minton's patent was invalid due to the on-sale bar rule. *Minton v. NASD*, 226 F.Supp. 2d 845 (E.D. Tex. 2002).

In the patent infringement case, Minton's lawyers failed to raise the 130-year old "experimental use" exception in response to NASD and NASDAQ's motion for summary judgment. Minton is not a lawyer and knew nothing of the experimental use exception. (JA 82). Minton replaced Petitioners with new lawyers who raised the experimental use exception in a motion for rehearing, but it was too late. On July 29, 2003, the order granting summary judgment was affirmed by the Federal Circuit, which observed that the experimental use exception had been raised too late. *Minton v. NASD*, 336 F.3d 1373, 1379 (Fed. Cir. 2003).

**C. Minton filed a malpractice lawsuit following the Petitioners' failure to raise the patent defense.**

On August 25, 2004, Minton filed this malpractice action against Petitioners alleging a single act of negligence – that Petitioners had failed to timely plead and brief the experimental use defense to the on-sale bar. (JA 7-16).

Petitioners moved for summary judgment contending that their negligence could not have

“caused” any harm because the experimental use exception of federal patent law would have failed as a matter of law if it had been raised. (JA 24-67). Minton responded. With regard to the merits of the summary judgment motion, both Minton and the Petitioners relied upon federal authority, almost exclusively Federal Circuit authority. (JA 30-57, 99-165).

On September 19, 2006, the state district court granted summary judgment dismissing Minton’s claims. (JA 208-215). In reaching its decisions, the court decided several contested issues of patent law: (1) whether an offer for sale or lease of a patented item is primarily for the purpose of experimental use or commercialization is a question of law (JA 211, ¶1); (2) whether experimental testing must relate to a required claimed feature for the experimental use exception to apply (JA 212, ¶4,a); (3) whether the court could only consider evidence of testing prior to the patent application (JA 213, ¶4,b,ii); and (4) whether expert testimony is required to prove experimental testing over the Internet (a new requirement in patent law never required by the Federal Circuit). (JA 214, ¶4.iv.).

**D. The court of appeals found jurisdiction and focused on the resolution of the patent issues; the Texas Supreme Court dismissed for lack of jurisdiction.**

Minton appealed the summary judgment to the state court of appeals. While the appeal was pending, the Federal Circuit decided two cases holding as a matter of first impression that federal

courts have exclusive jurisdiction over cases like this one. *Air Measurement Technologies, Inc., v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 504 F.3d 1262 (Fed. Cir. 2007), and *Immunocept, LLC v. Fulbright & Jaworski, LLP*, 504 F.3d 1281 (Fed. Cir. 2007).

Minton raised the jurisdictional issue in the state court of appeals. On December 6, 2009, a split panel of the court held that the state court had jurisdiction over Minton's case and affirmed the trial court's judgment. (Pet.App. 46-96). Ruling against Minton on the merits, the split panel addressed pure federal patent law issues. It held that the buyers' lack of knowledge of the experimental purpose was conclusive, rather than a factor, contrary to the Federal Circuit decision Minton cited holding that it was a factor only. (Pet.App. 66-67).

The split panel also held that evidence of experimental testing must apply to a patent's required claimed feature, not just a claimed feature or testing that is needed for the invention's intended purpose. (Pet.App. 66-67). Finally, the split panel ruled that the experimental use exception is a question of law, not fact. (Pet.App. 65-66).

In deciding whether Minton could establish the experimental use exception, the state court of appeals relied exclusively on holdings of federal courts and primarily on holdings of the Federal Circuit.

Minton appealed to the Supreme Court of Texas, which reversed the court of appeals and held that Minton's claims were subject to exclusive federal jurisdiction. (Pet.App. 1-26). Applying this Court's decisions in *Grable & Sons Metal Products, Inc. v. Darue Engineering & Manufacturing*, 545 U.S. 308 (2005) and *Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800 (1988), the Supreme Court of Texas held that the federal patent issue involved here is "necessary, disputed, and substantial within the context of the overlying state legal malpractice lawsuit." (Pet.App. 2). The Court further determined that this case could be decided in a federal court without upsetting the jurisdictional balance between state and federal courts. *Id.*

The Texas Supreme Court applied *Grable* precisely, element by element to Minton's claim. First, it held that the applicability of the on-sale bar was a necessary component in the determination of the legal malpractice claim because Minton relies on a single negligence claim, with no alternative theories, and the evaluation of the legal malpractice claim "necessarily requires a consideration of the legal and factual viability of the experimental use defense." (Pet.App. 15). Next, it held that the patent law issues are disputed for the "obvious reasons" that the parties contest whether the TEXCEN lease was primarily for a commercial purpose or an experimental one. (Pet. App. 16-17). The Texas Supreme Court addressed the third prong of *Grable*, determining that the federal issue at stake here more closely resembles that in *Grable* than in *Empire* because Minton's claim rises or falls depending on the viability of



the experimental use exception. (Pet.App. 17-20). Finally, it found that application of federal jurisdiction in this case would not disturb the balance of federal and state interests. (Pet.App. 30-24). In its analysis of this fourth prong, the Texas Supreme Court took into account the strong interest in creating and maintaining a uniform body of patent law. (Pet.App. 21-23).

The dissent in the Texas Supreme Court opined that only the first element of the *Grable* test was met, that the federal issue is a necessary element of Minton's well-pleaded complaint. (Pet.App. 30-31).



## SUMMARY OF THE ARGUMENT

This case meets the *Grable* standard for federal jurisdiction. The Texas Supreme Court properly followed this Court's guidance in deciding that Minton's patent legal malpractice case belongs in federal court. Affirming the Texas Supreme Court will not lead to a flood of cases into federal court, but at most a small trickle.

In 2005, *Grable* clarified that certain state law claims with embedded federal questions "arise under" federal law if they (1) necessarily raise a stated federal issue, (2) are actually disputed and substantial, (3) are the type of claim which a federal forum may entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities." *Grable*, 545 U.S. at 314.

Each prong of the *Grable* test acts as an independent filter assuring limited carefully selected state law claims with embedded federal issues reach federal court. Since *Grable* was decided, approximately 85 percent of state law claims with embedded federal questions that have been removed to federal court have been remanded to state court.<sup>1</sup>

Petitioners do not challenge that Minton's claim meets the necessity and disputed issue

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<sup>1</sup> See, Bradt, Andrew, *Grable on the Ground: Mitigating Unchecked Jurisdictional Discretion*, 44 U.C. DAVIS L. REV. 1153, 1176 (April 2011); Amicus Curiae Brief of Law Professors in Support of Petitioners, p. 17-18.

requirements, but contend that Minton's claim fails to meet *Grable's* substantiality and balance of state and federal interest requirements. The Texas Supreme Court properly found to the contrary.

The embedded federal issue (a question of federal patent law) is an essential element of Minton's legal malpractice claim. In this case, Minton pleaded a single act of negligence, the failure to raise the experimental use exception in response to the NASD and NASDAQ's motion for summary judgment. This issue is substantial under *Grable* because it is central to the case, implicates a federal agency, involves questions of pure patent law, including issues of first impression in patent law that will have precedential value, is dispositive of the case, requires national uniform application, requires special federal expertise, involves a private federal cause of action, and involves an area of law that has preempted state law.

Further, contrary to Petitioners' statement, in a patent legal malpractice case, the case-within-a-case analysis is not merely a hypothetical exercise. Patent law is distinct in this respect from other areas of federal law because a court's holding regarding a malpractice case can and does have a real effect on real patents through the reexamination and continuation patent application process. An inventor is required to submit to the patent office and patent examiner during the examination process all court rulings that can affect a patent. Thus, a state court's ruling in a malpractice action is required by federal law to be submitted to the patent examiner in the process of

determining whether to grant a continuation patent or divisional patent. A patent examiner, an officer of a federal agency, will be required to consider state court decisions on issues such as claim construction, patent validity, and obviousness. In fact, the state court decisions in this very case have been submitted to the USPTO for consideration because Minton has a pending continuation patent before the USPTO as this Merits Brief is being written. Thus, a state court's holding in a malpractice case is not always a "hypothetical" exercise because it can and does have an effect on a federal agency and a federal officer's ruling on a patent. Permitting state courts to rule on patent issues is contrary to the federal government's interest in having its actions controlled and reviewed by a federal forum.

Federal patent law is also distinct from other areas of law because the conduct of attorneys who appear only before the United States Patent and Trademark Office or in federal court can affect a patent under the inequitable conduct doctrine. For example, if an attorney engages in inequitable conduct, the patent can be declared invalid. The federal government has a substantial interest in having the patents issued by a federal agency construed in a federal forum.

Further, patent malpractice actions play a great role in setting the standards and expectations of practice before the USPTO and the federal courts. These standards and expectations should come from federal court. In a real sense, in fact, it is the case-within-a-case more than the overall malpractice' action that signals what

standards of practice are expected. Far from being merely "hypothetical," it guides future practice. And when that future practice concerns only federal law for which there exists no state analog and occurs exclusively before a single federal agency and a specialized court of appeals that Congress has established in recognition of the special need for uniformity and expertise in the area, it is surely appropriate that a federal court set these standards.

Finally, recognizing federal court jurisdiction in this case will further, not disrupt, Congress' "approved balance of federal and state judicial responsibilities." *Grable*, 545 U.S. at 314. The federal interest in accurate and uniform interpretation and application of the patent laws is at its zenith. Congress has not been "ambivalent" in the federal patent law area. Indeed, patent law occupies a special place in our nation's history. The founding fathers believed that patent protection was so important to the development of industry and science in our young nation that the Constitution granted Congress the power to create laws establishing patents. U.S. Const., art. I, § 8. Congress wasted no time and passed the first patent statute in the very first Congress in 1790. Act of April 10, 1790, ch. 7, 1 Stat. 109 (1790). Congress used the term "arising under" relating to patent jurisdiction in 1819 more than fifty years before "arising under" was used in the federal question jurisdiction statute enacted in 1874. Compare, Act of Feb. 15, 1819, ch. 19, 3 Stat. 481 (1819) to Act of June 22, 1874, Tit. XIII, ch. 12, §

711, 18 Stat. (Part 1) 134.<sup>2</sup> Congress gave federal courts exclusive jurisdiction relating to patents, created a single, nationwide appellate court for patent appeals, and made federal patent law preemptive over state law. 28 U.S.C. § 1338 (1999)(amended 2011); 28 U.S.C. § 1295 (1999)(amended 2011). Patent law is indeed distinct from almost any other area of federal law.

The state interest, by contrast, is modest. As noted above, a patent law malpractice claim will only arise from conduct of practitioners appearing before the USPTO (which a state has no ability to regulate) or federal courts. In many situations, because patents are national in scope, a malpractice claim may occur in a state where neither the attorney is licensed nor the client resides. Regardless whether the malpractice action lands in federal court, the applicable state bar will still have the ability to regulate the ethical behavior of lawyers through administrative proceedings. Thus, the state's interest is preserved.

Petitioners contend that recognizing federal jurisdiction in this case will lead to a flood of cases into federal court, sweeping an entire class of cases along with Minton's. But Petitioners' assertion is empirically unsupported, analytically incorrect, and incorrectly characterizes Minton's position.

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<sup>2</sup> See also, Chisum, Donald. *The Allocation of Jurisdiction Between State and Federal Courts in Patent Litigation*. 46 Wash. L. Rev. 633, 634-638 (1971).



Minton does not contend all malpractice claims will meet *Grable's* exacting standards. Applying *Grable's* analysis assures that only limited careful selection of state law claims with embedded federal issues will enter federal court. *Grable* would largely exclude actions against attorneys in which the case-within-a-case did not rest on patent law and others, like cases claiming breach of the attorney-client privilege and conflict of interest, which have no case-within-a-case inquiry at all. Second, Petitioners do not offer any real empirical evidence to support their contention. Empirical court filing statistics and studies reveal that only a small fraction of legal malpractice cases would land in federal court. Minton's claim is one of those rare cases.

In sum, to borrow from this Court's holding in *Grable*, Minton meets federal jurisdictional requirements because:

Whether [the experimental use exception is applicable] is thus an essential element of [Minton's legal malpractice] claim, and the meaning of ... federal [patent law] is actually in dispute, it appears to be the only legal or factual issue contested in the case. The meaning of the [experimental use exception] is an important issue of federal law that sensibly belongs in a federal court.

*Grable*, 545 U.S. at 315.



## ARGUMENT

- I. This Court should reject the request to adopt a test that no malpractice claim could ever meet federal court jurisdiction and follow instead this Court's jurisdictional analysis correctly applied by the Texas Supreme Court.

The Petitioners ask this Court to decide that no malpractice case grounded in patent law ever falls within 28 U.S.C. §1331 or §1338, regardless whether it meets *Grable's* standard. Yet this Court stated in *Grable* that embedded federal question jurisdiction requires "a common sense accommodation of judgment to [the] kaleidoscopic situations that present a federal issue." *Grable*, 545 U.S. at 313. This Court itself has firmly rejected the type of bright line test Petitioners request: "These considerations have kept us from stating a 'single, precise, all-embracing' test for jurisdiction over federal issues embedded in state-law claims between nondiverse parties." *Grable*, 545 U.S. at 314 (quoting *Christianson*, 486 U.S. at 821).

For nearly one hundred years, this Court has followed the principle that in certain cases, federal question jurisdiction will lie over state law claims that implicate significant federal issues. *Grable*, 545 U.S. at 312 (citing *Hopkins v. Walker*, 244 U.S. 486, 490-91 (1917)).

*Grable* synthesized this Court's prior holdings with regard to section 1331 "arising under" embedded federal question jurisdiction and confirmed that a state law claim that satisfies the

*Grable* standard belongs in federal court. The Court concluded that allowing some state law claims to be viable in federal court “captures the commonsense notion that a federal court ought to be able to hear claims recognized under state law that nonetheless turn on substantial questions of federal law, and thus justify resort to the experience, solicitude, and hope of uniformity that a federal forum offers on federal issues.” *Grable*, 455 U.S. at 312 (citing ALI, Study of the Division of Jurisdiction Between State and Federal Courts 164-166 (1968)).

*Grable* cited *Smith* as the “classic” example where an embedded federal question can lead to federal jurisdiction under §1331. *Grable*, 545 U.S. at 312-13 (citing *Smith v. Kansas City Title & Trust Co.*, 255 U.S. 180 (1921)). This observation appears to have led to the first prong of *Grable*, the well-pleaded complaint rule. “Although Missouri law provided the cause of action, this Court recognized federal question jurisdiction because the principal issue in the case was the constitutionality of the bond issue.” *Grable*, 545 U.S. at 312. This Court noted that *Smith* made a “somewhat generous statement...that the state law claim could give rise to federal-question jurisdiction so long as it appears from the [complaint] that the right to relief depends upon the construction or application of [federal law].” *Id.* (citing *Smith*, 255 U.S. at 199). The *Smith* statement was subject to some trimming by this Court’ earlier and later decisions. *Id.* at 213.

In *Shulthis v. McDougal*, 225 U.S. 561, 569 (1912), this Court required the federal issue to be substantial and disputed. This holding appears to

have led to *Grable's* second prong. "This limitation was the ancestor of Justice Cardozo's later explanation that a request to exercise federal-question jurisdiction over a state action calls for 'a common sense accommodation [that allows courts to engage in] a selective process which picks the substantial causes out of the web and lays the other ones aside.'" *Grable*, 545 U.S. at 313 (quoting *Gully v. First Nat. Bank in Meridian*, 299 U.S. 109, 117-118 (1936)).

In 1983, in *Franchise Tax Board*, this Court explained that even if the embedded federal question were disputed and substantial, the federal issue could be evaluated only after considering the "welter of issues regarding the interrelation of federal and state authority and the proper management of the federal judicial system." *Franchise Tax Board of the State of Cal. v. Construction Laborers Vacation Trust for Southern California*, 463 U.S. 1, 8 (1983). *Merrell Dow* advised that there must always be an assessment of any disruptive portent in exercising federal jurisdiction. *Merrell Dow Pharmaceuticals Inc. v. Thompson*, 478 U.S. 804, 810 (1986). These cases appear to have led to the third prong of *Grable*.

In fashioning a rule to determine whether a state law claim may or should be brought in federal court, this Court noted that the considerations discussed above have kept the Court from "stating a 'single, precise, all-embracing' test for jurisdiction over federal issues embedded in state-law claims between nondiverse parties." *Grable*, 545 U.S. at 314 (quoting *Christianson*, 486 U.S. at 821).

In *Grable*, this Court set forth a three-prong test for a state-law claim to “arise under” federal law, a test that Minton satisfies: 1) the plaintiff’s right to relief necessarily depends on the resolution of a substantial question of federal law; 2) that issue must be disputed and substantial; and 3) federal jurisdiction will not disturb the balance of federal and state responsibilities. *Grable*, 545 U.S. at 314. *Grable*’s test was reaffirmed a year later in *Empire Healthchoice Assur., Inc. v. McVeigh*, 547 U.S. 677 (2006).

Because Minton’s patent legal malpractice claim meets each of the *Grable* factors, his claim properly belongs exclusively in federal court, and this Court should affirm the Supreme Court of Texas’ judgment.

II. Federal jurisdiction is appropriate under this Court’s well-established standards because Minton’s patent legal malpractice claim turns on a disputed, substantial issue of federal patent law and asserting jurisdiction will not disturb the state-federal balance.

Petitioners do not challenge that Minton’s patent malpractice claim satisfies two of *Grable*’s requirements – in particular, that “the state law claim necessarily raise[s] a stated federal issue” and that the issue is “actually disputed.” (Pet.Br. 16-17). They argue only that the federal issue, the applicability of the experimental use doctrine, is not substantial and that allowing federal courts to consider it disrupts the “balance of federal and state judicial responsibilities.” (Pet.Br.32-33).

A. Minton's patent malpractice claim presents a substantial issue of federal law.

1. Minton's claim meets *Grable's* substantiality factors.

*Grable* requires that the embedded federal issue in the state-law claim be "substantial." *Grable*, 545 U.S. at 314. The substantial issue should indicate "a serious federal interest in claiming the advantages thought to be inherent in a federal forum." *Id.* This Court has indicated several factors to help guide the determination of whether the federal issue is substantial. This Court has discussed whether the federal issue is central to the case, whether a federal agency is implicated, whether the federal issue involves a question of federal law, whether the issue is dispositive, whether there is a need for uniformity in federal law, whether there is a special need for federal expertise, whether the issue involves a federal cause of action, and whether the federal issue has preempted state law. *See, e.g., Grable*, 545 U.S. at 312-16; *Empire*, 547 U.S. at 699, FN 5, 700-701. Minton's claim is substantial because (although not required) it meets each of these tenets of substantiality.

a. Whether the federal issue is central to the case.

*Smith*, *Grable* and *Empire* indicate that a federal issue central to the case is substantial. Here the interpretation and the applicability of the experimental use exception is the "litigation



reality.” 13D Charles Alan Wright & Arthur R. Miller, *Federal Practice and Procedure* § 3562 (3d ed. 2012).

In *Empire*, this Court drew a distinction between *Empire* and *Grable* by noting that *Grable’s* federal issue was central to the case.

The dispute there centered on the action of the federal agency (IRS) and its compatibility with a federal statute, the question qualified as ‘substantial,’ and its resolution was both dispositive of the case and would be controlling in numerous other cases.

*Empire*, 547 U.S. at 700 (emphasis added).

The centrality of federal patent law to Minton’s case begins with his petition. Minton alleged a single act of negligence – failure to timely raise and brief the experimental use exception. (JA 14-15). Petitioners moved for summary judgment on the sole issue that there was no causation because the experimental use exception failed as a matter of law. (JA 50-65). The state court of appeals resolved the case on the merits by deciding this issue of federal patent law, citing almost exclusively Federal Circuit holdings dealing with the experimental use exception. (Pet. App. 61-74.). Thus, Minton’s embedded federal question is clearly central to his case.



**b. Whether a federal agency is implicated.**

*Grable* further noted that the strength of the federal government's interest may contribute to a determination of substantiality. *Grable*, 545 U.S. at 315. In *Grable*, the government had a "direct interest in the availability of a federal forum to vindicate its own administrative action and buyers (as well as tax delinquents) may find it valuable to come before judges used to federal tax matters." *Id.* Likewise, in this case, the federal government has a direct interest in its federal agency (USPTO) actions being addressed in a federal forum before federal judges trained in the area of patent law. Also, as noted below, state law opinions could be used to affect a patent examiner's responsibilities when reviewing a continuation patent application.

**c. Whether the federal issue involves a precedential question of federal law.**

As noted in section II.A.1.a. above, *Empire* and *Grable* noted that whether a ruling on the federal issue would have precedential affect was a factor in determining whether the issue was substantial. In *Grable*, the federal district court had to rule on whether personal service was required under the federal tax statute.

Likewise, in this case a court would need to make legal decisions concerning federal patent law that would have precedential value as discussed in more detail below, such as: 1) whether the

experimental use exception is a question of law or fact;<sup>3</sup> 2) whether as a matter of law the buyer's lack of knowledge of the experimental use was conclusive as a matter of law or merely a factor;<sup>4</sup> 3) whether evidence relating to testing an experiment is legally relevant;<sup>5</sup> 4) whether relevant evidence of testing must be confined to a *required* claimed feature or a claimed feature or can testing for a patent's intended purpose constitute relevant evidence of experimental use;<sup>6</sup> and 5) whether an inventor must have expert testimony to prove that the testing was for a claimed element (an issue of first impression).<sup>7</sup>

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<sup>3</sup> Attorneys argued that it is a question of law; Minton argued it was a question of fact. Attorneys' Response Brief on the Merits to the Supreme Court of Texas, pp. 28-30; Minton's Brief on the Merits to the Supreme Court of Texas, pp. 32-33.

<sup>4</sup> The issue is disputed among different panels of Federal Circuit: *See Electromotive Div. of Gen. Motors Corp. v. Transportation Systems Div. of Gen. Elec. Co.*, 417 F.3d 1203, 1214-1215 (Fed. Cir. 2005) and *EZ Dock v. Shafer Sys., Inc.*, 276 F.3d 1347, 1358 (Fed. Cir. 2002)(experimental purpose established where no evidence was presented of customer awareness of experimental nature of product usage). *See* Attorneys' Response to Brief on the Merits to Supreme Court of Texas, pp. 42-44; Minton's Brief on the Merits to the Supreme Court of Texas, pp. 41-43.

<sup>5</sup> Minton's Brief on the Merits to the Supreme Court of Texas, pp. 38-40; Attorneys' Response to Brief on the Merits to Supreme Court of Texas, pp. 33-36.

<sup>6</sup> *See* Minton's Brief on the Merits to the Supreme Court of Texas, pp. 36-37; Attorneys' Response to Brief on the Merits to Supreme Court of Texas, pp. 32-37.

<sup>7</sup> JA 214 ¶ 4.b.iv.; *See* Attorneys' Response to Brief on the Merits to Supreme Court of Texas, pp. 32-33; Minton's Brief on the Merits to the Supreme Court of Texas, pp. 20-21.

d. Whether the issue is dispositive.

Whether the federal issue is dispositive also bears on substantiality. *Empire*, 547 U.S. at 700. In this case, the application of the experimental use exception is dispositive of Minton's malpractice claim because his claim will be defeated by one construction of federal law and sustained by the opposite. *Christianson*, 486 U.S. at 807-808.

e. Whether there is a need for uniformity in federal law.

In *Grable* and *Empire*, this Court stated that "the meaning of the federal tax provision ...is an important issue of federal law that sensibly belongs in a federal court." *Empire*, 547 U.S. at 700 (citing *Grable*, 545 U.S. at 315). That same conclusion applies to the meaning of the experimental use exception in patent law.

The U.S. Constitution gave Congress express authority to create laws relating to patents. See U.S. Const., art. I, § 8. ("Congress shall have [the] power ... To promote the Progress and Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries[.]") Congress wasted no time and implemented the first patent laws in 1790 in the very first Congress. Act of April 10, 1790, ch. 7, 1 Stat. 109 (1790). In fact, Congress used the term "arising under" to confer federal court jurisdiction

on patents in 1819, before the term “arising under” was used in the first federal question statute enacted in 1875 more than fifty years later. *Compare*, Act of Feb. 15, 1819, ch. 19, 3 Stat. 481 (1819) *and* Act of June 22, 1874, Tit. XIII, ch. 12, § 711, 18 Stat. (Part 1) 134. Congress’ choice of the term “arising under” as far back as 1819 can be seen to be drawn from the U.S. Constitution’s use of the term “arising under.”

Congress has carried forward the importance of the federal policies involving patents by requiring that federal courts have exclusive jurisdiction for matters relating to patents. 28 U.S.C. § 1338(a).

This Court has held that Section 1331 and 1338’s “arising under” phrasing should be construed together for “linguistic consistency.” *See Christianson*, 486 U.S. at 808. But the two sections are different insofar as section 1338 contains a second sentence that provides that federal courts have exclusive jurisdiction over patent matters. *Compare* 28 U.S.C. § 1331 *and* 28 U.S.C. § 1338.

Congress also created a special nationwide court of appeals (the Federal Circuit) to hear all appeals in patent cases. 28 U.S.C. § 1295 (a)(1). “The Congressional policy underlying Section 1295(a)(1) was to ensure uniform resolution of patent law disputes.” *DSC Communs. Corp. v. Pulse Communs., Inc.*, 170 F.3d 1354, 1359 (Fed. Cir. 1999).

The broad theme of the [Federal Courts Improvement Act enacting Section 1295(a)(1)] — increasing nationwide uniformity in certain fields of national law — is epitomized here in the field of patent law.

*Aerojet-General Corp. v. Machine Tool Works*, 895 F.2d 736, 744 (Fed. Cir. 1990).

Congress did so because of the special importance of the federal policies involving patents:

The new Court of Appeals of the Federal Circuit will provide nationwide uniformity in patent law, will make the rules applied in patent litigation more predictable and will eliminate the expensive, time-consuming, and unseemly forum-shopping that characterizes litigation in the field.

*Aerojet-General*, 895 F.2d at 744 FN 7 (quoting H.R. Rep. No. 97-312, p. 20 (1981)).

It is cases arising under patent law — not cases involving other federal questions such as federal trademark issues — over which Congress vested both the federal district courts and the Federal Circuit Court of Appeals with exclusive jurisdiction. As to trademarks, the federal courts have concurrent jurisdiction with the state courts. 28 U.S.C. § 1338. As to copyrights, the lower federal courts have exclusive jurisdiction, but the



Federal Circuit Court of Appeals does not have exclusive jurisdiction over trademark or copyright cases. 28 U.S.C. §§ 1338, 1295. The clearly expressed will of Congress as to the unique importance of uniform, nationwide, federal determination of patent law issues should be respected.

Petitioners' contention that a state court's ruling in a malpractice action will have no precedential value is incorrect. First, they just assume this without citation to any authority. Second, a state court's holding can have a preclusive effect on a continuation patent application. *See* Section II.A.2., *supra*. Third, an inventor is required by federal law to submit to the USPTO any judicial decision or litigation relating to the patent. *Id.* Minton has, in fact, submitted all state court decisions in this case to the USPTO for consideration as required by federal law. Finally, Petitioners' position ignores the reality that state courts will render opinions concerning patent law standards that are different from federal court holdings.

Otherwise, fifty different state court systems will be making decisions potentially having a direct impact on the USPTO's determination of patent applications as discussed above. The lack of predictability for lawyers will make it difficult for patent lawyers to give advice to business clients about the manner in which patents will be constructed and lawyers may have to over draw patents to try to predict what a state court judge may rule on a given patent. The over



drawing of patents can stifle business and also lead to a patent being declared invalid.

Congress' desire for uniformity and predictability was so high that it did not entrust other federal court of appeals, let alone state courts, to make patent related decisions.

**f. Whether there is a special need for federal expertise.**

Federal district judges are the only trial judges who hear patent cases. Federal Circuit judges are the only intermediate appellate judges who hear patent law matters. Thus, Congress entrusted patent law decisions exclusively to these two categories of judges in the entire country. Congress also wanted federal patent agency decisions to be reviewed exclusively by federal district judges.

Recently, in December 2010, Congress implemented a pilot program to give district court judges greater expertise in patent cases. *See Patent Cases Pilot Program*, Pub. L. 111-349, 124 Stat. 3674 (2011). Congress did so to enhance expertise in patent cases among United States district judges. *See Richmond, Karen, District Courts Selected for Patent Pilot Program*, United States Courts, June 11, 2011, [http://uscourts.gov/news/newsview/11-06-07/District\\_Courts\\_Selected\\_for\\_Patent\\_Program.aspx](http://uscourts.gov/news/newsview/11-06-07/District_Courts_Selected_for_Patent_Program.aspx) (last accessed Dec. 17, 2012).

Given this backdrop, patent legal malpractice cases are therefore the type of cases

that “justify resort to the experience, solicitude, and hope of uniformity that a federal forum offers on federal issues.” *Grable*, 545 U.S. at 312.

g.      **Whether there is a federal cause of action.**

Both *Grable* and *Merrell Dow* viewed whether Congress created a federal cause of action as a means to determine whether the state-law claim’s embedded federal issue is substantial. *Grable*, 545 U.S. at 316-17; *Merrell Dow*, 878 U.S. at 812. *Merrell Dow* found that lacking a federal cause of action was a factor against finding federal court jurisdiction based on an embedded federal question in a state-law claim. *Id.* In contrast, *Grable* did find federal question jurisdiction although *Grable*’s embedded federal question did not create a cause of action. *Grable* found that Congress’s “ambivalence” by not providing a federal cause of action did not prevent the Court from finding federal jurisdiction in that case. *Grable*, 545 U.S. at 319-20. *Grable* recognized that a federal cause of action is not required, but rather provides a “welcome mat” to finding federal court jurisdiction. *Id.*

In contrast to both *Grable* and *Merrell Dow*, Congress did provide a welcome mat to federal court jurisdiction in this case. Thus, Minton’s embedded federal issue is distinct from both of the embedded federal issues involved in *Merrell Dow* and *Grable*, and many other state law cases that refer to federal law, because in this case, Congress was not ambivalent. Congress expressly created a federal cause of action for patent infringement, the

very claim Minton asserts he lost due to alleged malpractice in failing to raise the experimental use exception.

**h. Whether the federal issue has preempted state law.**

Federal patent law is substantial in this case because Congress has preempted state law with regard to patent law. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 156 (1989) (states may not offer patent like protection because Congress has preempted this area of the law); *See also, Sears, Roebuck & Co., v. Stiffel Co.*, 376 U.S. 225, 228-29 (1964) ("as Madison put in *The Federalist* No. 43, the States 'cannot separately make effectual provision' for either patents or copyrights."). Congress' preemption indicates the strong federal interest in the area of patent law.

**2. In patent cases, the case within a case inquiry is not merely hypothetical but can affect real patents.**

Petitioners assert that Minton's case-within-a-case is not a substantial issue because a court would be merely conducting a hypothetical exercise that would not affect a patent. But that conclusion is incorrect. A state court's decisions in a patent malpractice case can and will affect actual patents when a continuation patent

application is pending before the USPTO, which occurs in about one in five patent applications.<sup>8</sup>

A continuation patent application arises when an original patent application has two or more independent and distinct inventions. *See* 35 U.S.C. § 121 (2011). The original application is restricted to one of the inventions. The other inventions are not lost, but are subject to a “divisional” or “continuation” application during the pendency of the original application. *See* 35 U.S.C. § 120 (2011).

Minton, in fact, has a continuation patent application pending at this time.<sup>9</sup> Under federal

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<sup>8</sup> Filing of such divisional, continuation and continuation-in-part applications is a routine practice. In fact, two of the patents at issue in *Air Measurement* (US Patents No. 6,201,475 and 6,310,522) were based on continuation patent applications. *Air Measurement*, 504 F.3d at 1265. Further, using 2005 as an example, of the approximately 317,000 applications filed, about 62,870 were continuation, continuation-in-part or divisional applications; nearly 20%. *See* Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims, 71 FR 48, 50 (proposed Jan. 3, 2006). Thus, it can be expected that about 1 in 5 of all litigations involving a patent (including malpractice litigations) will directly impact the examination and issuance of patents by the United States Patent and Trademark Office. This is a substantial impact on the workings of a federal agency.

<sup>9</sup> *See* USPTO.gov Public PAIR information, showing parent and child continuity data for U.S. Patent No. 6,014,643, showing pending continuation application Ser. No. 10/899,233 filed on July 26, 2004. <http://portal.uspto.gov/external/portal/pair>(enter number “08/703,133” choose “continuity data” tab).

patent law, Minton is required to disclose to the USPTO judicial decisions and litigation relating to his continuation patent application. *See Nilssen v. Osram Sylvania, Inc.*, 504 F.3d 1223, 1224 (Fed. Cir. 2007)(holding that the existence of earlier related litigation itself was material information); *Leviton Manufacturing Co., Inc. v. Universal Security Instruments, Inc.*, 606 F.3d 1353, 1362 (Fed. Cir. 2010). “Where the subject matter for which a patent is being sought is or has been involved in litigation, the existence of such litigation and any other material information arising therefrom must be brought to the attention of the U.S. Patent and Trademark Office.”<sup>10</sup>

In this case, the state district judge made a legal determination of claim construction as well as deciding the patent law experimental use exception ruling regarding Minton’s patent. (JA 208-214). A court’s prior claim construction and other orders can be binding upon a patent examiner under the doctrine of issue preclusion. *Marlow Industries, Inc. v. Igloo Products Corp.*, 65 Fed.Appx. 313, 318 (Fed. Cir. 2003) (citing *In re Freeman*, 30 F.3d 1459, 1466-69 (Fed. Cir. 1994)). A state court ruling is given full faith and credit pursuant to 28 U.S.C. §1738. 28 U.S.C. § 1738 (1948). These rulings have been submitted to the USPTO for consideration pursuant to federal law concerning Minton’s continuation patent

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<sup>10</sup> U.S. Patent and Trademark Office, Manual of Patent Examining Procedure, 8<sup>th</sup> Ed., Revision 9 (2012) § 2001.06(c), *available* at  
[mpep.uspto.gov/RDMS/detail/manual/MPEP/e8r9/d0e18.xml](http://mpep.uspto.gov/RDMS/detail/manual/MPEP/e8r9/d0e18.xml).



application and will directly impact prosecution of Minton's continuation patent application.

Thus, a state court's ruling can and does have an effect on actual patents. This result is contrary to this Court's holding in *Grable* that "[t]he Government thus has a direct interest in the availability of a federal forum to vindicate its own administrative action." *See Grable*, 545 U.S. at 315.

Patent law is distinct in another respect because the lawyer's conduct can affect the issuance or validity of a patent under the doctrine of inequitable conduct, the exceptional-case statute, and the statutory provisions authorizing regulation of PTO practice. *See*, 35 U.S.C. § 111 (2012); *Paragon Podiatry Laboratory, Inc. v. KLM Laboratories, Inc.*, 984 F.2d 1182, 1192-93 (Fed. Cir. 1993)(attorney's inequitable conduct can invalidate a patent); *see also Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276, 1290 (Fed. Cir. 2011)(en banc)(noting that an attorney's submission to the PTO may be a basis for an inequitable conduct finding); *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381-82 (Fed. Cir. 2005)(noting that attorney misconduct may be a predicate for an exceptional case finding under 35 U.S.C. § 285 (1952)); *Carter v. ALK Holdings, Inc.*, 605 Fed. 3d 1319, 1324 (Fed. Cir. 2010)("The standards for practice before the PTO are governed by federal law.").

Thus, there is a substantial federal interest in ensuring that federal patent law questions are



correctly and uniformly resolved in determining the standards for attorney conduct in patent cases.

3. Patent malpractice actions play a great role in setting standards and expectations and should be heard in federal court.

Patent malpractice actions also play a great role in setting the standards and expectations of practice before the USPTO and the federal courts. These standards and expectations should come from federal court, especially in light of the fact that an attorney's conduct can actually affect a patent. As this Court has noted, the "recognized purpose" of tort law is "deterrence." *Yarborough v. Alvarado*, 541 U.S. 652, 674 (2004); see *City of Newport v. Fact Concerts, Inc.*, 453 U.S. 247, 268 (1981) (noting that "deterrence . . . is an important purpose" of constitutional tort doctrine). Legal malpractice actions, just like medical malpractice actions, not only compensate victims for their injuries ex post but also define ex ante the rules under which professionals must act. The case-within-the-case that Petitioners repeatedly characterize as merely "hypothetical," (e.g. Pet.Br. 12, 13, 14, 33, 39, 43, 45, 51) thus serves an important purpose. Even if in any particular case it may not define any actual patent rights, it helps to define something at least as important: the standard of care patent lawyers must meet in future patent applications and litigation. It puts all on notice going forward that failure to act in certain ways may lead to tort liability. It focuses

professionals' attention onto the standards of practice they are expected to adhere to and by threatening damages effectively deters carelessness and unprofessional behavior. In a real sense, in fact, it is the case-within-a-case more than the overall malpractice action that signals what standards of practice are expected. Far from being merely "hypothetical," it guides future practice. And when that future practice concerns only federal law for which there exists no state analog and occurs exclusively before a single federal agency and a specialized court of appeals that Congress has established in recognition of the special need for uniformity and expertise in the area, it is surely appropriate that a federal court set these standards.

4. **Petitioners' Footnote Six merely lists cases with a federal ingredient without any analysis.**

Footnote six of the Petitioners' brief reviews thirty-five Texas appellate court decisions as purported examples of cases that would be swept into federal court under the Federal Circuit's definition of "substantial." (Pet.Br. 36, FN 6). But this conclusion is unfounded. The Petitioners provide no *Grable* analysis of these individual cases. A review of these cases reveals that many of them, at most, have only a "federal ingredient." Without applying *Grable's* filter to those thirty-five cases cited in footnote six, the list of cases provides little guidance. In fact, in at least two of those cases, the courts did do such an analysis and the cases did not pass *Grable's* test for federal

jurisdiction. *See Singh v. Duane Morris, L.L.P.*, 338 S.W.3d 176 (Tex.App.—Houston [14th Dist.] 2011) review denied (Mar. 31, 2011) remanded to state court by 538 F.3d 334 (5th Cir. 2008)(recognizing the potential difference between an embedded question of trademark law and one of patent law, stating, “It is possible that the federal interest in patent cases is sufficiently more substantial, such that it might justify federal jurisdiction.”); and, *In re Haynes and Boone, L.L.P.*, 376 S.W.3d 839 (Tex.App.—Houston [1st Dist.] 2012, orig. proceeding), remanded to state court by *Rx.Com, Inc. v. O’Quinn*, 766 F.Supp.2d 790 (S.D. Tex. 2011).

The majority of those cases do not present a substantial federal issue at all as the potential federal issue is not central to the resolution of the case. For instance, many of the malpractice cases based on criminal representation or federal habeas corpus petitions were dismissed on the basis that the element of proximate cause in a malpractice case is not met where the convicted criminal is not exonerated of the crime.<sup>11</sup> At least two cases were resolved on the basis that the statute of

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<sup>11</sup> *See, e.g., Nabors v. McColl*, 05-08-01491-CV, 2010 WL 255968 (Tex.App.—Dallas Jan. 25, 2010), review denied (April 23, 2010) relying on *Peeler v. Hughes & Luce*, 909 S.W.2d 494 (Tex. 1995); *See also Bullock v. McLean*, 13-07-00204-CV, 2008 WL 3867644 (Tex.App.—Corpus Christi, Aug. 21, 2008), *Butler v. Mason*, 11-05-00273, 2006 WL 3747181 (Tex.App.—Eastland Dec. 21, 2006), cert. denied, 552 U.S. 1024 (2007); *Falby v. Percely*, 09-04-422-CV, 2005 WL 1038776 (Tex.App.—Beaumont May 5, 2005); *Wadhwa v. Goldsberry*, 01-10-00944-CV; 2012 WL 682223 (Tex.App.—Houston [1st Dist.] Mar. 1, 2012).

limitations had passed.<sup>12</sup> While some of the cases do mention the underlying federal case from which the malpractice claim arose, many of them do not discuss the substantive federal issue that may be potentially at play, if there even is one.<sup>13</sup> In at least four of the cases, the central issue is a distinct state law issue of interpretation of contracts.<sup>14</sup> For instance, *Inliner Americas, Inc. v.*

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<sup>12</sup> *Estate of Whitsett v. Junell*, 218 S.W.3d 765 (Tex.App.—Houston [1<sup>st</sup> Dist.] 2007); *Stromberger v. Law Offices of Windle Turley, P.C.*, 05-06-00841-CV, 2007 WL299643 (Tex.App.—Dallas Oct. 16, 2007)(dismissed on basis that statute of limitations had run).

<sup>13</sup> *Stromberger v. Law Offices of Windle Turley, P.C.*, 05-06-00841-CV, 2007 WL299643 (Tex.App.—Dallas Oct. 16, 2007)(No description of underlying federal suit that was removed when FDIC overtook the claim on behalf of the original defendant.); *Red v. Doherty*, 03-06-00478-CV, 2007 WL 2066182 (Tex.App.—Austin July 20, 2007), review denied (Jan. 11, 2008)(Issue on appeal was whether personal jurisdiction existed over California attorneys who represented bankruptcy debtor in a California state court wrongful death suit prior to bankruptcy filing; although the suit mentions claims against Texas bankruptcy attorneys, there is no discussion of the potential federal issue at stake, if any); *Geo-Chevron Ortiz Ranch #2 v. Woodworth*, 04-06-00412-CV, 2007 WL 671340 (Tex.App.—San Antonio Mar. 7, 2007), review denied (June 8, 2007)(Issue on appeal was personal jurisdiction over defendants and due order of pleadings rule; no discussion of potential federal issue).

<sup>14</sup> *Wright v. Verner, Liipfert, Bernhard, McPherson and Hand, Chartered*, 01-02-01321-CV, 2005 WL 497264 (Tex. App. — Houston [1<sup>st</sup> Dist.] Mar. 3, 2005)(Issue was interpretation of Intervention Settlement Agreement between former attorney and party to Qui Tam action under Federal False Claims Act; specifically, the issues of fraud and duress were the deciding questions in the case, not issues of federal law); *Miller v. Brewer*, 118 S.W.3d 896 (Tex.App.—Amarillo 2003)(Issue was whether the parties had agreed to arbitrate in signing representation agreement,

*MaComb Funding Group, L.L.C.*, 348 S.W.3d 1 (Tex.App.—Houston [14th Dist.] 2010) review denied (June 17, 2011), was a declaratory judgment action regarding whether a claim for legal malpractice was acquired by a creditor in an assignment agreement. Contract interpretation was at issue in that case, not patent infringement, and the fact that the legal malpractice claim was based on an underlying patent infringement case had no effect on whether the Court found the malpractice claim was assigned as part of the agreement. Frankly, it could have been based on any area of law, state or federal.

Almost half of the cases cited in Footnote Six are related to bankruptcy proceedings and involve nothing more than a “federal ingredient.” In most of these cases, the case within the case analysis either did not involve an embedded bankruptcy issue or could not be discerned from the opinion.<sup>15</sup> Additionally, often the issue in the

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and whether former client had signed the agreement as a result of fraud); *Fleming v. Ahumada*, 193 S.W.3d 704 (Tex.App.—Corpus Christi 2006)(involved issues regarding breach of a non-disclosure clause of settlement agreement between former attorney and former client in legal malpractice in representation during bankruptcy proceedings).

<sup>15</sup> For example, *Jackson v. Kincaid* involved issues of personal jurisdiction over attorneys who had represented a client in bankruptcy proceedings but did not address the basis for the alleged malpractice or its relation to bankruptcy law. 122 S.W. 3d 440 (Tex.App.—Corpus Christi 2003, pet. granted, judgment vacated, remanded by agreement); see also *Fields v. Gendry & Sprague, P.C.*, 04-01-00097-CV, 2002 WL 1906374 (Tex.App.—San Antonio 2002) review denied (Jan. 9, 2003)(dispositive issue was the collectability of assets and case was summarily affirmed without discussion



bankruptcy malpractice action deals with property interests that are created under and governed by state law. *See, e.g., Butner v. U.S.*, 440 U.S. 48, 55 (1979) (“Property interests are created and defined by state law. Unless some federal interest requires a different result, there is no reason why such interests should be analyzed differently simply because an interested party is involved in a bankruptcy proceeding.”).

Unlike the immediate case, many of the Footnote Six cases are precisely the types of cases that would not meet the test for federal jurisdiction because they contain only an “ingredient” of federal law.

What the Footnote Six cases do have in common, however, is that they will have to meet the analysis set forth by this Court in *Grable* and its related decisions in order to qualify for federal jurisdiction. The Petitioners’ sweeping generalization of those cases fails to address whether these cases will meet the *Grable* standard.

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of underlying bankruptcy proceedings); *Swinehart v. Stubbeman, McRae, Sealy, Laughlin & Browder, Inc.*, 48 S.W.3d 865 (Tex.App.—Houston [14<sup>th</sup> Dist.] 2001) review denied (Sept. 20, 2001)(malpractice claim was related to representation in state court claims against oil company which was litigated in adversary proceeding in oil company’s bankruptcy case); *Alpha Pay Phones Ltd. III v. Mankoff, Hill, Held & Metzger, P.C.*, 05-97-01510-CV, 2000 WL 688176 (Tex.App.—Dallas 2000)(malpractice claim was based on alleged conflict of interest in bankruptcy proceeding representation, no discussion of substantive bankruptcy issues).



**B. Recognizing federal jurisdiction does not disturb the balance of federal and state responsibilities.**

In *Grable*, this Court held that an embedded federal issue can cause a state law claim to “arise under” federal law if it does not “disturb [the] congressionally approved balance of federal and state judicial responsibilities.” *Grable*, 545 U.S. at 314. This case respects that balance.

Petitioners make two arguments to support their position that federal jurisdiction in this case will disturb the state-federal balance. First, they argue that all state law malpractice claims involving a federal issue will flood the federal courts. They assert that the “case-within-a-case analytical frame-work [will] sweep an entire class of state-law claims into federal law’s preemptive reach and would unavoidably result in a case of the tail wagging the dog.” (Pet.Br. 42-43) (quoting *Warrior Sports, Inc. v. Dickinson Wright, P.L.L.C.*, 666 F.Supp.2d 749, 751 (E.D. Mich 2009), vacated, 631 F.3d 1367 (Fed. Cir. 2011)). Second, they contend that accepting federal court jurisdiction does not account for the state’s interest.

The Petitioners’ first argument that cases will flood into federal court is inaccurate because it fails to consider the effect that the *Grable* standard has on limiting cases that qualify for federal court jurisdiction and it relies on no empirical data.

In order to properly analyze the potential burden on federal courts, we must look at the

impact *Grable* has had on embedded federal question jurisdiction. In the years following *Grable*, federal courts vigorously applied each of *Grable's* elements with each prong acting as a filter eliminating state law claims from federal court at every level. For example, the first prong, the well-pleaded complaint rule, serves to strip cases from federal court consideration. "[T]he well-pleaded complaint rule serves an important purpose in the scheme of federal jurisdiction by limiting the reach of original federal question jurisdiction."<sup>16</sup> In fact, a case may very well pass the well-pleaded complaint test, but may nevertheless fail federal court consideration because there are alternative theories. See *Christianson*, 486 U.S. at 810. Consequently, in the years following *Grable*, approximately eighty-five percent of embedded federal question cases have been remanded to state court.<sup>17</sup>

But *Grable's* jurisdictional analysis is only the starting point because legal malpractice cases only make up a tiny fraction of federal court cases. To get a perspective of the impact on the potential federal court caseload, a few statistics are helpful. First, malpractice claims in general make up a very small percentage of all cases filed. According to the National Center for State Courts, approximately 19,000,000 lawsuits were filed in

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<sup>16</sup> Richard E. Levy, *Federal Preemption, Removal Jurisdiction, and the Well-Pleaded Complaint Rule*, 51 U. CHI. L. REV. 634, 638-39 (1984).

<sup>17</sup> See, Bradt, Andrew, *Grable on the Ground: Mitigating Unchecked Jurisdictional Discretion*, 44 U.C. DAVIS L. REV. 1153, 1176 (April 2011); Amicus Curiae Brief of Law Professors in Support of Petitioners, p. 17-18.

2010 in state court.<sup>18</sup> According to the American Bar Association's Standing Committee on Professional Liability approximately 53,000 legal malpractice lawsuits were filed in 2011 in state and federal court.<sup>19</sup> Thus, legal malpractice cases make up only .0028 of all cases filed.<sup>20</sup>

The American Bar Association also reports that of the approximately 53,000 legal malpractice cases filed in 2011, only 926 of them were patent, trademark, or copyright legal malpractice actions, or 1.75 percent.<sup>21</sup> Even if all three categories of legal malpractice cases are included, approximately 10 cases filed in each United States District per year (there are 89 Districts). If patent, trademark, and copyright cases are separated, there would be approximately 3.3 patent legal malpractice cases filed in each United States District per year. But United States District Court records show that approximately 45 percent of federal case filings are based on diversity.<sup>22</sup>

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<sup>18</sup> Court Statistics Project, Examining the Work of State Courts: An Analysis of 2010 State Court Caseloads, Total Incoming Civil Caseloads Reported by State Courts, <http://courtstatistics.org/civil/2012civil.aspx> (choose "Get Data")(last visited Dec. 18, 2012).

<sup>19</sup> Am. Bar. Ass'n Standing Comm. on Lawyers' Prof. Liab., Profile of Legal Malpractice Claims 2008-2011 at 5, tbl. 1 (2012).

<sup>20</sup> The Court Statistics Project did not report filings for the year 2011. The ABA's profile does not include statistics for malpractice filings for the year 2010. Consequently, this analysis takes into account two different years, but nevertheless provides an opportunity to compare the number of overall state cases filed with the number of malpractice cases filed.

<sup>21</sup> *Id.*

<sup>22</sup> United States Courts, Federal Judicial Caseload Statistics: Table C-2.

Therefore, approximately 1.5 patent legal malpractice cases would be filed in each district (not each district court) per year under federal question jurisdiction assuming that all patent legal malpractice cases meet *Grable's* exacting standards. Applying the *Grable* statistical number of 15 percent reduces the number of patent legal malpractice cases to under one case per United States District per year.

Another way to look at this data is to note that there were approximately 300,000 civil federal lawsuits filed last year.<sup>23</sup> Thus, the approximately 308 patent legal malpractice cases filed last year could only account for roughly one-tenth of one percent of the federal court docket. The impact on federal courts is "microscopic."

The Petitioners' second argument concludes that recognizing federal jurisdiction in this case fails to take into account the state's interest in regulating the practice of law also fails because in the context of patent legal malpractice, the state's interest is modest.

First, regardless whether the malpractice action lands in federal court, the applicable state bar will still have the ability to regulate the ethical behavior of lawyers through administrative proceedings. Thus, a state's interest is preserved. Second, the state's interest is non-existent in those

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<http://uscourts.gov/uscourts/statistics/federaljudicialcaseload/statistics/2011/tables/c02mar//.pdf> (last visited Dec. 18, 2012).

<sup>23</sup> *Id.*

situations where the patent malpractice actions were be committed by non-lawyers who are admitted to practice before the USPTO because states have no ability to regulate practice before the USPTO. *See Sperry v. State of Florida ex rel. Florida Bar*, 373 U.S. 379, 385 (1963)(state courts may not regulate the practice before the PTO). Third, patent litigation malpractice will only occur in federal court because patent litigation is exclusively in federal court. 28 U.S.C. § 1338(a).

Additionally, the patent legal malpractice's case within a case analysis signals what standards of practice are expected of patent attorneys. And when that standard evaluates conduct in cases involving federal law for which there exists no state analogue and addresses conduct that occurs exclusively before a single federal agency and a specialized court of appeals that Congress has established in recognition of the special need for uniformity and expertise in the area, it is surely appropriate that a federal court set these standards. It does not appear appropriate that a state court should set the standard for conduct in an area of law over which it has no jurisdiction. State courts have never had an interest in policing patent practitioners or in establishing the standard of care in prosecuting patent applications, drafting claims, and negotiating patentable claims scope with USPTO patent examiners. "State court decisions imposing attorney discipline for conduct before the USPTO and in federal patent litigation based on an incorrect interpretation of patent law are almost certain to result in differing standards for attorney conduct and to impair the patent bar's ability to



properly represent clients in proceedings before the USPTO and the federal courts.” *Byrne v. Wood, Herron & Evans, LLP*, 676 F.3d 1024, 1026-27 (Fed. Cir. 2012)(en banc)(Dyk, J., concurring).

Congress recently enacted the Leahy-Smith America Invents Act (AIA) the first substantial change to patent law in 52 years, which clarified jurisdictional provisions for federal district courts and the Federal Circuit. America Invents Act, Pub. L. No. 112-29, § 19, 125 Stat. 284 (2011).

These portions of the AIA were intended specifically to address this Court’s holding in *Holmes Group v. Vornado Air Circulation Systems, Inc.*, 535 U.S. 826 (2002) that patent law counterclaims do not fall under § 1338 jurisdiction.<sup>24</sup>

*Air Measurement* and *Immunocept* had been decided at the time the AIA was enacted but Congress chose not to address them, thereby leaving their holdings intact. When Congress passes legislation it is presumed to know the judicial decisions construing legislative law. *See, Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Curran*, 456 U.S. 353, 379 (1982)(citing *Cannon v. University of Chicago*, 441 U.S. 677, 696-697 (1979)).

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<sup>24</sup> See H.R. REP. No. 109-407 at 4-5 (2006)(analyzing the *Holmes Group* decision and considering criticism thereof); and *Holmes Group*, the Federal Circuit, and the State of Patent Appeals: Hearing Before the Sub Comm. On Courts, the Internet, and Intellectual Prop. of the H. Comm. on Judiciary, No. 109-7 (March 17, 2005).



### III. Following *Grable* as did the Texas Supreme Court resolves this case.

This Court has for years rejected the request for a bright-line rule. In *Merrell Dow*, this Court disclaimed the adoption of any bright-line rule, as when the Court reiterated that “in exploring the outer reaches of § 1331, determinations about federal jurisdiction require sensitive judgments about congressional intent, judicial power, and the federal system.” *Grable*, 545 U.S. at 316 (quoting *Merrell Dow*, 478 U.S. at 810). This Court noted that questions of jurisdiction over state-law claims require “careful judgments, ... about the ‘nature of federal interest at stake.’” *Grable*, 545 U.S. at 317 (quoting *Merrell Dow*, 478 U.S. at 814).

In this case, Petitioners want not only to disregard this analysis but to take the bright-line rule a step further. Not only are they advocating a bright-line rule, they are advocating a bright-line result. Their approach does not articulate a jurisdictional analysis based on statutory language and doctrinal holdings but on an intended result. As this Court stated in *Grable*: “There is, however, no reason in text or otherwise to draw such a rough line.” *Grable*, 545 U.S. at 320, FN 7. This Court should decline the Petitioners’ invitation.

As this Court held in *Grable*, “[g]iven the absence of threatening structural consequences and the clear interest the [federal] Government [and inventors] have in the availability of a federal forum, there is no good reason to shirk from federal jurisdiction over the dispositive and

contested federal issue at the heart of the state-law [malpractice] claim." 545 U.S. at 319-320.

## CONCLUSION

This Court should affirm the Supreme Court of Texas' holding in this case because it correctly applied *Grable's* well-established standards for determining when a state law claim gives rise to federal jurisdiction. This case, and other malpractice cases like it that are grounded in unsuccessful patent infringement litigation, do not present a close question as to the balance between the duties of federal and state courts. Minton satisfies *Grable*. The Texas Supreme Court got it right.

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# **REPLY BRIEF**

**In The  
Supreme Court of the United States**

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**JERRY W. GUNN, INDIVIDUALLY;  
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JAMES E. WREN, INDIVIDUALLY; SLUSSER &  
FROST, L.L.P.; WILLIAM C. SLUSSER, INDIVIDUALLY;  
SLUSSER WILSON & PARTRIDGE, L.L.P.; AND  
MICHAEL E. WILSON, INDIVIDUALLY,**

*Petitioners,*

*v.*

**VERNON F. MINTON,**

*Respondent.*

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**On Writ Of Certiorari To The  
Supreme Court Of Texas**

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**PETITIONERS' REPLY BRIEF ON THE MERITS**

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| <br><b>LEGISLATIVE MATERIAL</b>                                                         |         |
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## **ARGUMENT**

### **I. This Court should remedy the Federal Circuit's improper and unworkable standard for "arising under" jurisdiction.**

The core issue in this appeal is whether the Federal Circuit and the Supreme Court of Texas improperly departed from the standard for "arising under" jurisdiction announced in *Grable & Sons Metal Products, Inc. v. Darue Engineering & Manufacturing*, 545 U.S. 308 (2005). Petitioners (the "Lawyer Defendants") urge this Court to reverse the judgment below, reject the Federal Circuit standard, and clarify that legal malpractice claims do not satisfy either the substantiality or federalism components of "arising under" jurisdiction, even when they arise out of patent matters. Allowing state courts to decide malpractice actions will clarify the standard for "arising under" jurisdiction without threatening the uniformity of patent law.

### **II. There is nothing about patents that warrants a different standard for "arising under" jurisdiction.**

Respondent's side contends that patents are so special that the standard for "arising under" jurisdiction over state claims with embedded patent issues should be different from the standard for other embedded federal questions. *See, e.g., Wood Herron Am.*

Br. 11<sup>1</sup> (suggesting bright-line rule that all patent malpractice claims present substantial issues of patent law); Los Alamos Am. Br. 10 (arguing that “application of patent law to the specific facts of a case is a substantial federal patent issue”). That contention is contrary to jurisdictional statutes and this Court’s prior decisions and is not necessary to maintain uniformity of patent law.

**A. The statutory jurisdiction standard for patent issues is the same as for all federal issues.**

The two statutory grants of “arising under” jurisdiction use the same language. The general federal question provision grants original jurisdiction “of all civil actions arising under” federal law. 28 U.S.C. § 1331. The provision relating to patents uses the same language granting original jurisdiction “of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks.” 28 U.S.C. § 1338(a).<sup>2</sup> The second sentence of section 1338(a) makes federal jurisdiction exclusive where patents are concerned, but it does not change the scope of the grant of

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<sup>1</sup> “Am. Br. \_\_\_\_” refers to *amicus* briefs in this appeal. “Resp. Br. \_\_\_\_” refers to Minton’s brief.

<sup>2</sup> The Leahy-Smith America Invents Act of 2011, Pub. L. No. 112-29, 125 Stat. 284 (2011) (the “America Invents Act”) amended section 1338(a), but it did not amend the first sentence of section 1338(a), which makes the jurisdictional grant.

"arising under" jurisdiction. *Id.* Thus, though patent claims are unique in that federal jurisdiction is exclusive, the standard for original jurisdiction over patent claims – the actual grant of jurisdiction to the federal courts – is the same as for all federal claims.

At the time this suit was filed, the Federal Circuit had appellate jurisdiction over the final decision of a district court "if the jurisdiction of that court was based, in whole or in part, on Section 1338." 28 U.S.C. § 1295. The Federal Circuit's appellate jurisdiction thus mirrored the district courts' original patent jurisdiction. Through the America Invents Act, Congress amended section 1295, using the language of section 1338, to include compulsory counterclaims. See 28 U.S.C. § 1295(a)(1) (giving the Federal Circuit appellate jurisdiction over the final decision of a district court "in any civil action arising under, or in any civil action in which a party has asserted a compulsory counterclaim arising under, any Act of Congress relating to patents or plant variety protection").

Nothing in these jurisdictional statutes reflects a Congressional intent that "arising under" original jurisdiction for patents be measured by a different standard than that applied in *Grable*. To the contrary, by amending the statutes through the America Invents Act while leaving the "arising under" standard in sections 1338(a) and 1295, Congress expressed its

intent to leave those standards as they were.<sup>1</sup> Congress did not, as Minton suggests, ratify the Federal Circuit standard articulated in *Air Measurement Techs., Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 504 F.3d 1262 (Fed. Cir. 2007). Resp. Br. 48. The America Invents Act was adopted in 2011, after *Air Measurement*, but its Committee report adopts an earlier 2006 report regarding the jurisdictional amendments. See H.R. Rep. No. 112-98 (2011), at 81 (reaffirming H.R. Rep. No. 109-407 (2006)).

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<sup>1</sup> As is discussed in Petitioners' opening brief (pp. 57-60), the America Invents Act allows federal jurisdiction over compulsory patent counterclaims. The Act rewrote the second sentence of section 1338(a) to make federal jurisdiction exclusive: "No State court shall have jurisdiction over any claim for relief arising under any" patent laws. 28 U.S.C. § 1338(a). The phrase "any claim for relief" captures: (1) the district courts' section 1338 original jurisdiction over "any civil action arising under" patent laws; and (2) removal jurisdiction over a "civil action" in which any party filed "any claim for relief arising under" patent laws. See 28 U.S.C. § 1454(a). The Federal Circuit's coextensive appellate jurisdiction is limited to: (1) "any civil action arising under" patent laws; and (2) "any civil action in which a party has asserted a compulsory counterclaim arising under" patent laws. 28 U.S.C. § 1295(a)(1). The reference to compulsory counterclaims in the Federal Circuit's appellate jurisdiction clarifies that "any claim for relief" in sections 1338(a) and 1454(a) is likewise limited to compulsory counterclaims.

**B. This Court has construed “arising under” jurisdiction to mean the same thing in both sections 1331 and 1338.**

This Court has construed the “arising under” jurisdictional grant to mean the same thing under both section 1331 (general federal question jurisdiction) and section 1338 (civil actions relating to patents). *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 829-30 (2002) (quoting *Christianson v. Colt Indus. Operating Co.*, 486 U.S. 800, 808 (1988), and explaining that “‘linguistic consistency’ requires us to apply the same test to determine whether a case arises under § 1338 as under § 1331”).

This Court in *Holmes Group* interpreted “arising under” to have the same meaning in sections 1331 and 1338 (and thus section 1295) despite pleas from litigants and *amici* in that case that patents should have a different rule in order to “effectuat[e] Congress’s goal of ‘promoting the uniformity of patent law.’” *Holmes Group*, 535 U.S. at 832 (quoting Brief for Respondent 21); *see also* Brief of Patent, Trademark & Copyright Section of the Bar Association of the District of Columbia as *Amicus Curiae* in Support of the Respondents in *Holmes Group*, at 14-15 (urging the Court to “make an exception to such a rule where, as here, the counter-claim includes a claim for relief arising under the patent law, which should be reviewed by the Federal Circuit”). Minton and *amici* make the same plea here, which this Court should reject as it did in *Holmes Group*, because it “would be an unprecedented act of necromancy” to say that



"arising under" means one thing in section 1331 but something quite different in section 1338. *See Holmes Group*, 535 U.S. at 833-34.

**C. Allowing state courts to decide state legal malpractice cases will not threaten the uniformity of patent law, which will continue to be the exclusive province of the Federal Circuit.**

Minton argues that allowing the state courts to decide legal malpractice cases arising out of patent matters will threaten the uniformity of patent law. Resp. Br. 30. That is simply not true. State court decisions regarding federal law (including patent law) are not binding on either federal courts or the United States Patent and Trademark Office ("USPTO") considering patent applications. By contrast, federal courts hearing patent cases and the USPTO are bound by decisions of the Federal Circuit. Allowing state courts to decide legal malpractice cases with embedded patent issues will not threaten the uniformity of patent law, which will continue to be developed exclusively by the Federal Circuit.

**1. District courts deciding patent cases are not bound by state court decisions but are bound by Federal Circuit decisions regarding patent law.**

It is black-letter law that federal courts are not bound by the decisions of state courts on issues of

federal law. *See, e.g., Davis v. Wechsler*, 263 U.S. 22, 24 (1923) (“Whatever springes the State may set for those who are endeavoring to assert rights that the State confers, the assertion of Federal rights, when plainly and reasonably made, is not to be defeated in the name of local practice.”); *Commodities Exp. Co. v. Detroit Int’l Bridge Co.*, 695 F.3d 518, 528 (6th Cir. 2012) (noting that “a state court’s opinion on an issue of federal law . . . is entitled to no deference whatsoever” and “[n]otions of federalism do not require this court to follow a state court’s holdings with respect to federal questions”); *Portalatin v. Graham*, 624 F.3d 69, 84 (2d Cir. 2010), *cert. denied*, 131 S.Ct. 1693 (2011) (noting that “we do not defer to [state] court’s interpretation of *federal* law, but we are bound by its construction of *New York* law”) (court’s emphasis).

While the federal courts are not bound by state court decisions regarding patent law, they are bound by the Federal Circuit’s decisions regarding patent law. The Federal Circuit’s unique jurisdictional grant makes the district courts accountable to both their regional circuits and the Federal Circuit:

We recognize, as did Congress, the unique jurisdictional grant of this court-specific, nationwide subject matter jurisdiction. This jurisdictional grant, however, places practitioners and district courts in a unique posture: they are accountable to two different courts of appeals. Such a posture raises questions relating to *stare decisis* and certainty in the law. *See generally* 1B *Moore’s Federal Practice* ¶ 0.402[1]. Since a district

court is bound by the law of its circuit, see *Hasbrouck v. Texaco, Inc.*, 663 F.2d 930, 933 (9th Cir.), *cert. denied*, 459 U.S. 828 (1982), a district court exercising jurisdiction pursuant to 28 U.S.C. § 1338 is bound by the substantive patent law of this circuit. The requirement to obey the law of its circuit causes practitioners and district judges, in general, to follow the substantive patent law as set forth by this court in “patent” cases and to follow the “general” laws as set forth by their regional circuit court in non-patent cases. That requirement, however, is the result that Congress sought to achieve in creating the Federal Circuit.

*Panduit Corp. v. All States Plastic Mfg. Co.*, 744 F.2d 1564, 1573 (Fed. Cir. 1984); see also *Weil v. Killough*, 2012 WL 3260395, \*3 (D.S.C. Aug. 8, 2012) (stating that “opinions of the Federal Circuit are binding on federal district courts in matters concerning patent law”); *Beam Laser Sys., Inc. v. Cox Commc’ns, Inc.*, 117 F. Supp. 2d 515, 520 n.5 (E.D. Va. 2000) (“Opinions of the Federal Circuit are binding on federal district courts in matters concerning patent law.”).

Thus, in any patent action brought in federal court pursuant to section 1338 – that is, any *real* patent action – the decisions of the Federal Circuit regarding patent law are binding on the federal courts, and the decisions of state courts are not. Allowing the state courts to resolve hypothetical patent issues in legal malpractice cases will not threaten the uniformity of patent law.

**2. The USPTO is not bound by state court decisions but is bound by Federal Circuit decisions regarding patent law.**

A state court's determination of case-within-the-case patent issues in a legal malpractice claim is not binding on the USPTO. The USPTO's Manual of Patent Examining Procedure provides that a continuation patent<sup>4</sup> will be denied on the basis of a prior court decision only if the decision comes from a "reviewing court": "It should be applied only when the earlier decision was a decision of the Board of Appeals or any one of the reviewing courts and when there is no opportunity for further court review of the earlier decision." USPTO, Manual of Patent Examining Procedure, 8th Ed., Revision 9 (2012) § 706.03(w) (the "Manual"). The statutory "reviewing courts" include only: (1) the Board of Patent Appeals and Interferences (35 U.S.C. § 134(a)); (2) the Federal Circuit (35 U.S.C. § 141); and (3) the United States District Court for the District of Columbia (35 U.S.C. § 145). No state court makes the list. Therefore, no state court decision in a legal malpractice case – even if it decides hypothetical issues of patent construction or

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<sup>4</sup> A continuation is a second application for the same invention claimed in a prior application and filed before the original prior application becomes abandoned or patented. USPTO, Manual of Patent Examining Procedure, 8th Ed., Revision 9 (2012) § 201.07. By definition, a continuation adds no new matter and is entitled to the benefit of the filing date of the parent application. *Id.*

infringement – can be binding on the USPTO considering a continuation patent application.<sup>5</sup>

Minton argues the opposite: that a state court's decision on a case-within-a-case patent issue can be binding on a patent examiner reviewing a continuation application. Resp. Br. 33-34. Minton cites to no authority for this proposition, which is contrary to the Manual. A patent applicant must disclose all prior litigation involving the subject matter of a patent, Manual at § 2001.06(c), but it does not follow, as Minton implies, that state court decisions will bind the application process. In fact, it is the decision of the federal courts in Minton's underlying Patent Litigation against the National Association of Securities Dealers (the "NASD") that will control the destiny of Minton's continuation patent application, not the state court decision in his later malpractice action.

Minton cites two cases – *Marlow Industries, Inc. v. Igloo Products Corp.*, 65 Fed. Appx. 313, 318 (Fed. Cir. 2003) and *In re Freeman*, 30 F.3d 1459, 1466-69 (Fed. Cir. 1994) – for the unremarkable proposition that prior decisions of a federal court construing a patent are binding on the patent holder (but not on the USPTO) during a reexamination of the patent. See also *Blonder-Tongue Labs., Inc. v. Univ. of Ill.*

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<sup>5</sup> As an aside, if the USPTO were bound by state court decisions in legal malpractice cases, the United States likely would have weighed in as *Amicus Curiae* in this appeal, just as it did on behalf of the Internal Revenue Service in *Grable* and did on behalf of the Office of Personnel Management in *Empire Healthchoice Assurance, Inc. v. McVeigh*, 547 U.S. 677 (2006).



*Found.*, 402 U.S. 313, 350 (1971) (overruling *Triplett v. Lowell*, 297 U.S. 638, 642 (1936)) (holding that a defendant to a patent infringement case may assert, for estoppel purposes, a prior invalidity ruling to which he was neither a party nor privy). That principle applies here to bind Minton to the final judgment in the underlying Patent Litigation. The federal courts in the Patent Litigation construed claim language and granted a summary judgment that Minton's patent was invalid based on the on-sale bar and obviousness. See *Minton v. Nat'l Ass'n of Sec. Dealers, Inc.*, 197 F. Supp. 2d 699, 701 (E.D. Tex. 2001); *Minton v. Nat'l Ass'n of Sec. Dealers, Inc.*, 226 F. Supp. 2d 845, 852 (E.D. Tex. 2002). The Federal Circuit affirmed the summary judgment and found the claim construction proper and Minton's patent invalid. *Minton v. Nat'l Ass'n of Sec. Dealers, Inc.*, 336 F.3d 1373, 1381 (Fed. Cir. 2003). Those judgments in the underlying Patent Litigation, not the rulings of the state courts in this malpractice suit, bind Minton in any examination of his continuation patent.

Given the nature of a legal malpractice case – it arises only after there has been an adverse final result in some underlying litigation or proceeding – there will always be an underlying *actual* judgment regarding the patent before there can be a subsequent malpractice action. The underlying adjudication will be in federal court pursuant to section 1338, with appeal to the Federal Circuit, and that decision – not any subsequent state court malpractice judgment – will control any related patent application.



**3. The USPTO retains the sole authority to regulate lawyer practice before the USPTO.**

Allowing state courts to decide legal malpractice cases will not impact the authority of the USPTO to regulate attorneys who are admitted to practice before it. The Director of the USPTO has sole authority to "suspend or exclude, either generally or in any particular case, [a lawyer] from further practice" before the USPTO. 35 U.S.C. § 32. That authority is absolute, and it is distinct from the ability of the states to regulate lawyer practice before that state's courts. See 37 C.F.R. § 11.1 ("Nothing in this part shall be construed to preempt the authority of each State to regulate the practice of law, except to the extent necessary for the United States Patent and Trademark Office to accomplish its Federal objectives."). Just as the Director of the USPTO determines whether a particular lawyer can continue to practice before the USPTO, the Bar of each state, not a private litigant in a civil suit, determines whether a particular lawyer can continue to practice before its courts. See *State v. Dancer*, 391 S.W.2d 504, 509 (Tex. Civ. App. — Corpus Christi 1965, writ ref'd n.r.e.) ("The provisions of Art. XII of the State Bar Rules leave no room for any statutes providing for disbarment proceedings brought in a district court by an individual lawyer independently of a Grievance Committee of the State Bar.").

The Federal Circuit has confirmed that the "PTO has the exclusive authority to establish qualifications

for admitting persons to practice before it, and to suspend or exclude them from practicing before it," and recognized the distinction between state and USPTO regulation of lawyers before their respective tribunals. *Kroll v. Finnerty*, 242 F.3d 1359, 1364 (Fed. Cir. 2001) (citing 37 C.F.R. § 10.1 and noting that "the Director is entitled to regulate the conduct of patent practitioners before the PTO").

Allowing state courts to decide legal malpractice cases will thus not affect the ability of the USPTO to regulate those who practice before it.

### **III. The Federal Circuit standard discards the substantiality element of the *Grable* test.**

#### **A. Under the proper *Grable* standard, case-within-the-case patent issues in legal malpractice cases are not sufficiently substantial to support "arising under" jurisdiction.**

*Grable* confirmed that "federal jurisdiction demands not only a contested federal issue, but a substantial one, indicating a serious federal interest in claiming the advantages thought to be inherent in a federal forum." 545 U.S. at 313. Minton's claims specifically, and legal malpractice claims generally, simply do not present substantial federal issues to support "arising under" jurisdiction.

As an important threshold matter, any case-within-the-case patent issues are hypothetical in legal malpractice cases.\* No actual patent rights are construed or enforced in a legal malpractice case, and that necessarily diminishes the substantiality of any embedded federal issue. Any determination of actual patent rights, such as a judgment of invalidity or scope, happens in the underlying case. A subsequent legal malpractice case may shift economic loss, but it does not revive a patent that has already been declared invalid, or change the scope of a patent that has already been construed. A comparison of the relief prayed for in Minton's complaint in the underlying Patent Litigation and in the petition in his legal malpractice suit makes this distinction clear. In the Patent Litigation, Minton prays for: (1) a judgment that the NASD is infringing Minton's '643 patent; (2) a permanent injunction enjoining the NASD from infringing further; and (3) monetary damages. JA 22. By comparison, in the legal malpractice case Minton prays only for monetary damages. JA 15. Any judgment of infringement or injunction affecting actual patent rights would be determined in the underlying action and binding on the parties in the future; no such determination occurs in a legal malpractice case.

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\* The hypothetical nature of legal malpractice claims is discussed more fully in the brief filed by *Amicus Curiae* Ronald Mallen and in his authoritative treatise on legal malpractice. See Ronald E. Mallen & Jeffrey M. Smith, *Legal Malpractice* (2012 ed.).

The additional factors for measuring substantiality are also lacking. As is discussed above, no federal agency is implicated because the USPTO is not bound by any state court decision. Moreover, there is no precedential resolution of patent law in a legal malpractice case because state court decisions are not binding on federal courts. So even if a state court were called on to resolve an unresolved patent issue (which is certainly not the case here), subsequent federal courts hearing real patent cases would not be bound by that decision. There is simply nothing substantial about a Texas state court deciding whether Minton's summary judgment affidavit presented any relevant evidence that the primary purpose of the TEXCEN lease was experimental.<sup>7</sup> There is no federal interest in resolving that case-specific question.

The flaw in the Federal Circuit standard is that it ignores substantiality entirely and finds exclusive "arising under" jurisdiction whenever the legal malpractice claim involves application of some principle of patent law as part of the case-within-the-case. The clearest example of that overreach involves claims for missing statutory USPTO deadlines. One recent case,

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<sup>7</sup> Minton argues that his claims present disputed issues of patent law "that would have precedential value." Resp. Br. 25. In support of the contention that the applicable patent law itself is unresolved, Minton relies primarily on the parties' briefing in the Supreme Court of Texas. *Id.* at n.3-7. A review of the court of appeals' opinion affirming the summary judgment (App. 66-73), however, demonstrates that Minton's claims involved application of well-settled patent law to the case-specific facts.

for example, involved a claim that a lawyer failed to notify his client that the 7.5 year patent maintenance fee was due. *Weil v. Killough*, 2012 WL 3260395, at \*1. The court found “arising under” jurisdiction over the claims:

Moreover, in alleging that [the lawyer] breached a duty, [the client] claims that [the lawyer] was responsible for notifying him of the 7.5 year maintenance fee. Determination of this claim requires interpretation of federal regulations. . . . For these reasons, the court finds that § 1338 confers jurisdiction over [the client’s] state law cause of action.

*Id.* at \*2 (citations omitted).

Surely interpretation of statutory deadlines and notice responsibilities are matters that the state courts can handle with no threat to patent law. Under the Federal Circuit standard, however, “arising under” jurisdiction has a hair trigger. If any regulation or principle of patent law is at issue, no matter how insubstantial, section 1338 exclusive jurisdiction applies.<sup>5</sup>

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<sup>5</sup> The *Weil v. Killough* court noted that another district court had previously held that a claim for legal malpractice stemming from failure to pay the 7.5 year maintenance fee did not implicate a substantial issue of patent law sufficient to support “arising under” jurisdiction, but the Federal Circuit reversed that decision. 2012 WL 3260395, at \*4 n.4 (citing *Warrior Sports, Inc. v. Dickinson Wright, P.L.L.C.*, 632 F. Supp. 2d 694,

(Continued on following page)



**B. The Federal Circuit standard improperly relies on *Christianson* and ignores *Grable*'s refinement of the "arising under" standard.**

The Federal Circuit standard goes awry because it conflates the necessity and substantiality elements of the *Grable* test. This is likely because the court does not rely on *Grable* for the proper "arising under" standard but instead relies on a quote from *Christianson*, which had not fleshed out the substantiality component as *Grable* later did. The *Christianson* Court stated that "arising under" jurisdiction extends to any case "in which a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law, *in that patent law is a necessary element of one of the well-pleaded claims.*" *Christianson*, 486 U.S. at 809 (emphasis added). The Federal Circuit relied exclusively on that last phrase, even though this Court later emphasized the substantiality element in *Grable*: "Because proof of patent infringement is necessary to show AMT would have prevailed in the prior litigation, patent infringement is a 'necessary element' of AMT's malpractice claim and therefore apparently presents a substantial question of patent law conferring § 1338 jurisdiction."

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699 (E.D. Mich. 2009), *vacated*, 631 F.3d 1367, 1372 (Fed. Cir. 2011)).



*Air Measurement*, 504 F.3d at 1269 (citing *Christianson*, 486 U.S. at 809).

*Amicus Curiae* the American Intellectual Property Law Association (the "AIPLA"), points out that the Federal Circuit's overly broad view of "arising under" jurisdiction is not a new phenomenon, and can be traced to "its view of *Christianson* as providing a lenient standard for jurisdiction, despite *Grable*." AIPLA Am. Br. 16. Confirming that the substantiality inquiry is a separate, meaningful component of the "arising under" standard would remedy the Federal Circuit's mistaken standard and assure that "arising under" jurisdiction is reserved for only the "slim category *Grable* exemplifies." *Empire*, 547 U.S. at 701 (quoting *Grable*, 545 U.S. at 313).

#### **IV. Exercising federal jurisdiction over state legal malpractice claims upends the proper federal-state balance.**

##### **A. Consideration of the federal-state balance is more than just the numbers.**

In analyzing the federalism component of the *Grable* test, Minton focuses heavily on sheer numbers of cases. See Resp. Br. 44-46; IPLAC Am. Br. 29-30. Because patent malpractice cases would only be a small percentage of the federal courts' civil docket as a whole, Minton argues, these cases would not overburden the federal courts and disturb the federal-state balance. That analysis misses the point. The "disruptive portent" the *Grable* Court sought to avoid

involves not only sheer numbers, but more fundamentally it looks at whether a *category* of claims would be disrupted.

For example, the *Grable* Court held that exercising federal jurisdiction in that particular case would not upset the balance between state and federal courts because it would arise so rarely. *Grable*, 545 U.S. at 315. The focus was on the category of cases at issue – state title cases – and the Court concluded that the federal-state balance would not be disturbed because only rarely would one of that category of cases be haled into federal court. Under the Federal Circuit standard (and specifically under the bright-line rule suggested by *amici* supporting Minton) *all* legal malpractice cases arising out of patent matters would be haled into federal court. Not the rare case, but all of them. That would not overwhelm the federal courts with sheer numbers, to be sure, but sweeping an entire category of state law cases into federal court would, without question, disrupt the federal-state balance regarding those claims.

The disruptive portent will be even greater as the Federal Circuit's standard is applied to state legal malpractice claims arising out of other underlying federal issues, as it has been. *See, e.g., Reserve Mgmt. Co., Inc. v. Willkie Farr & Gallagher L.L.P.*, 2012 WL 4378058, at \*7 (S.D.N.Y. Sept. 25, 2012) (claims for legal malpractice based on underlying federal securities laws litigation invoked exclusive federal jurisdiction); *In re Haynes and Boone, L.L.P.*, 376 S.W.3d 839, 847 (Tex. App. – Houston [1st Dist.] 2012, orig.

proceeding) (applying Federal Circuit standard and holding that legal malpractice action arising out of antitrust representation comes within "arising under" jurisdiction). Minton criticizes footnote 6 in the Lawyer Defendants' opening brief, which identified Texas legal malpractice cases that could come within "arising under" jurisdiction because they arose from underlying federal matters. Resp. Br. 38-42. Under a proper *Grable* analysis, it may be that many of those cases would not come within "arising under" jurisdiction (indeed, Minton's claims do not survive a proper *Grable* analysis). But under the Federal Circuit's broader standard, which courts have begun to apply to federal issues other than patents, the result would be different. Footnote 6 thus rightly demonstrates the "tremendous number of cases" that could come within "arising under" jurisdiction if the mere existence of an embedded federal issue were sufficient. *Grable*, 545 U.S. at 318.

Finally, because it depends on the principle that all patent issues should be decided exclusively by federal courts, the broad jurisdictional standard Minton suggests is uncabined. It is not limited to legal malpractice claims, but would encompass any state claim with an embedded issue "touching on patent law." IPLAC Am. Br. 20. Such a rule would disrupt the federal-state balance far more than the relatively limited number of patent malpractice

cases.’ Yet that result necessarily follows if the standard for “arising under” jurisdiction regarding patent issues is different from the *Grable* standard that applies to all other federal issues.

**B. Minton’s focus on the number of malpractice cases misses the point of the federalism inquiry and is based on flawed assumptions.**

Minton focuses on the number of legal malpractice lawsuits counted by a recent report of the American Bar Association. Resp. Br. 44 (citing Am. Bar Ass’n Standing Comm. on Lawyer Liab., Profile of Legal Malpractice Claims 2008-2011 (2012) (the “ABA Report”)). The ABA Report, however, does not purport to illustrate all cases filed; it merely illustrates trends taken from reports of a sample of insurance carriers – which the report itself admits may also be misleading: “At worst, the data may . . . mislead by illustrating the experience of only the participating carriers,

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\* Such a broad rule could encompass state claims such as breach of contract or business disparagement that include embedded patent issues. See, e.g., *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318 (Fed. Cir. 1998); *U.S. Valves, Inc. v. Dray*, 212 F.3d 1368 (Fed. Cir. 2000). It could also encompass a divorce proceeding or probate matter if, for example, the proper division of a marital or decedent’s estate turned on the value or validity of patent rights. See, e.g., *Alsenz v. Alsens*, 101 S.W.3d 648, 652-53 (Tex. App. – Houston [1st Dist.] 2003, no pet.) (determining value of patent rights and royalties for purposes of dividing marital estate).

an experience that may vary when compared with the larger universe of claims encompassing both those claims not reported as well as the experiences of the carriers choosing not to participate in the study.” ABA Report at 4. Only about one-third of United States legal malpractice carriers participated in providing information to the ABA. See *id.* at 2.<sup>10</sup> As such, there is no way to compare the raw numbers in the ABA Report to the total number of cases in any meaningful way.

Minton also assumes that only “approximately 308” patent malpractice cases were filed in the United States in 2011. Resp. Br. 46. This number misleads as well because it is based on an arbitrary assumption that one-third of the 926 intellectual property malpractice cases reported in the ABA Report are for patent as opposed to trademark or copyright, and there is no basis for that assumption. Minton then compares his assumption of 308 patent malpractice cases to a reported 300,000 civil cases filed in U.S. federal courts in 2011 to conclude that the percentage of patent malpractice cases filed is “microscopic” in comparison. Resp. Br. 46. Due to the very limited scope of the ABA Report, using the raw numbers from the ABA report is meaningless.

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<sup>10</sup> Compare list of participating U.S. carriers, ABA Report at 2, to all ABA Professional Insurance Liability Directory at <http://apps.americanbar.org/legalservices/lpl/directory/carriers/>.



The only real conclusion to be drawn from the raw numbers in the ABA Report is that the number of patent malpractice claims is growing at a significant pace.<sup>11</sup> This is consistent with the conclusion in the *Legal Malpractice* treatise that there has been a “dramatic increase in the frequency of legal malpractice lawsuits in the intellectual property area, almost all of which concern patent law.” *Mallen Am. Br.* 7-8. Section 31.5 of the *Legal Malpractice* treatise is entitled “Recurring Errors – In General,” and it collects decisions in patent legal malpractice cases, organized by state and type of alleged error. Hundreds of cases are listed, most very recent given that the “significant increase in the exposure of intellectual property lawyers to legal malpractice claims has been a phenomenon of the Twenty-First century.” *Legal Malpractice* § 31.5 at 432 (2012).

Under the Federal Circuit standard, all of those cases would come within the exclusive jurisdiction of the federal courts, because all involve “embedded issues touching patent law” through the case-within-the-case. *See IPLAC Am. Br.* 20. That would be, no doubt, a disruptive portent.

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<sup>11</sup> The ABA Report shows 685 reported “patent, trademark, copyright” malpractice claims by participating carriers in 2007 and 926 such claims reported by participating carriers in 2011 – a 35% increase. *See ABA Report* at 5.



**V. There is a real need for a standard that reduces uncertainty regarding “arising under” jurisdiction.**

The Lawyer Defendants agree with *Amicus Curiae* IPLAC that a bright-line rule is sorely needed, because federal “arising under” jurisdiction over patent cases is exclusive. Parties could lose rights, or as in this case be forced to litigate the same claims twice, if they choose the wrong forum in the first instance. The Federal Circuit standard is not only contrary to *Grable*; it has also created uncertainty regarding which malpractice cases come within “arising under” jurisdiction and which do not. In footnotes 14 and 15 of their opening brief, for example, the Lawyer Defendants cite scores of recent decisions in patent legal malpractice cases that split on the jurisdiction issue. The lists are not exhaustive: courts continue to grapple with the question in meaningful numbers.<sup>12</sup> In 2012 alone the Federal Circuit

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<sup>12</sup> The following recent opinions also address “arising under” jurisdiction over patent legal malpractice claims: *Patriot Universal Holding, L.L.C. v. McConnell*, 2012 WL 5510328 (E.D. Wis. Nov. 14, 2012); *Weil v. Killough*, 2012 WL 3260395; *Altapure, L.L.C. v. Reed Smith, L.L.P.*, 2012 WL 2576207 (N.D. Ill. July 8, 2012); *Wills, O’Neill & Melik v. Rothman*, 2012 WL 1854060 (D.N.J. May 12, 2012); *Lemkin v. Hahn, Loeser & Parks*, 2012 WL 1058951 (S.D. Ohio Mar. 28, 2012); *GemEx Sys. Inc. v. Andrus Scales Starke & Swall L.L.P.*, 2012 WL 686236 (E.D. Wis. Mar. 2, 2012); *E-Pass Techs. v. Moses & Singer, L.L.P.*, 2011 WL 5357912 (N.D. Cal. Nov. 4, 2011); *Revolutionary Concepts, Inc. v. Clements Walker, P.L.L.C.*, 714 S.E.2d 210 (N.C. App. 2011); *Arc Prods., L.L.C. v. Kelly*, 424 Fed. Appx. 944 (Fed. Cir. 2011).

analyzed the jurisdiction issue in five separate appeals.<sup>12</sup> The current state of the law is plainly not working.

To eliminate the present confusion regarding “arising under” jurisdiction, this Court should reverse the judgment below and reiterate the *Grable* standard, with particular emphasis and guidance as to the substantiality and federalism components. But this case presents the opportunity to achieve even greater certainty with no attendant adverse consequences. A bright-line rule that legal malpractice claims arising out of patent representation do not come within “arising under” jurisdiction would provide absolute certainty on that issue as to a category of claims that rightly belong in state court.

This Court previously declined to adopt bright-line rules that would “exclude significant questions of federal law.” *Grable*, 545 U.S. at 320 n.7 (declining to adopt a rule that “arising under” jurisdiction exists “only where a constitutional issue is at stake” and rejecting a “flat ban on statutory questions”). A bright-line rule excluding legal malpractice claims based on representation in patent matters, by comparison,

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<sup>12</sup> See *Byrns v. Wood, Herron & Evans, L.L.P.*, 676 F.3d 1024 (Fed. Cir. 2012) (*en banc*); *USPPS, Ltd. v. Avery Dennison Corp.*, 676 F.3d 1341 (Fed. Cir. 2012); *Memorylink Corp. v. Motorola, Inc.*, 676 F.3d 1051, 1052 (Fed. Cir. 2012); *Landmark Screens, L.L.C. v. Morgan, Lewis & Bockius, L.L.P.*, 676 F.3d 1354 (Fed. Cir. 2012); *Minkin v. Gibbons, P.C.*, 680 F.3d 1341 (Fed. Cir. 2012).

would not exclude significant questions of federal law.  
This Court should adopt such a rule.

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## CONCLUSION

The decision of the Supreme Court of Texas  
should be reversed.

Respectfully submitted,

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# **SUPPLEMENTAL BRIEF**

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IN THE  
SUPREME COURT OF THE UNITED STATES

-----◆-----  
JERRY W. GUNN, INDIVIDUALLY, WILLIAMS SQUIRE &  
WREN, L.L.P., JAMES E. WREN, INDIVIDUALLY,  
SLUSSER & FROST, L.L.P., WILLIAM C. SLUSSER,  
INDIVIDUALLY, SLUSSER, WILSON & PARTRIDGE,  
L.L.P., AND MICHAEL E. WILSON, INDIVIDUALLY,  
*Petitioners*

v.

VERNON F. MINTON  
*Respondent*

-----◆-----  
On Petition for Writ of Certiorari  
To The Supreme Court of Texas  
-----◆-----

SUPPLEMENTAL BRIEF OF RESPONDENT

-----◆-----  
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## SUPPLEMENTAL BRIEF OF RESPONDENT



- I. Recent decisions indicate that the Attorneys' fear is not justified and the *Minton* decision will not lead to all state claims involving embedded federal issues being swept into federal court.

The Attorneys have continued to argue that the precedent set by *Minton v. Gunn*, 355 S.W.3d 634 (Tex. 1022), *Air Measurement Technologies, Inc. v. Akin, Gump, Strause, Hauer & Feld, LLP*, 504 F.3d 1262 (Fed. Cir. 2007) and *Immunocept v. Fulbright & Jaworski, L.L.P.*, 504 F.3d 1281 (Fed. Cir. 2007) will lead to all embedded federal issues being swept into federal courts without any empirical data in support. Plus, this argument ignores the different treatment afforded to patent law under federal jurisdiction, which is recognized in such cases as *Singh v. Duane Morris, LLP*, 538 F.3d 334 (5th Cir. 1997).

Recently, the First District Court of Appeals of Texas, seated in Houston, declined to apply the standard set in *Minton* to a legal malpractice case based upon an underlying antitrust claim. In *In re Haynes and Boone, LLP*, the court of appeals stated, "Because there is no nexus between the 'arising under' standard and the question of whether federal courts have jurisdiction over the embedded federal antitrust issues, we reject relators' suggestion that the *Grable* standard provides the appropriate frame of analysis." Appendix A, *In re Haynes and Boone, LLP*, 2012 WL 3068787, No. 01-12-00341-CV, \*3 (Tex.App.—Houston [1st Dist.], July 26, 2012).

*In re Haynes and Boone* is a successor to the decision of *RX.com, Inc. v. O'Quinn*, 766 F.Supp.2d 790 (S.D. Tex 2011), which remanded the case to state court after it was removed to federal court. It is also a case upon which the Attorneys have relied in their arguments to the Texas Supreme Court and to this Court.<sup>1</sup> Interestingly, the real parties in interest in that case, RX.com and its founder Joe S. Rosson, filed an *amici curiae* brief in *Minton v. Gunn* at the Texas Supreme Court. That brief argued that applying federal jurisdiction in the *Minton* case would "impermissibly sweep into federal court and divest Texas courts of numerous Texas state law legal malpractice cases arising from federal court litigation," and "would seriously and fundamentally disturb the balance of federal and state judicial responsibilities." See, Brief of Amici Curiae RX.Com, Inc. and Joe S. Rosson, p. 4. That fear was directly proven to be unjustified in their own case when the Texas Supreme Court's decision in *Minton* was not applied because the case did not involve underlying patent litigation.

The *Haynes and Boone* decision reasons that U.S.C. § 1331 and U.S.C. § 1338 are distinguishable:

*Minton* is procedurally distinguishable from the Federal Circuit precedents<sup>2</sup> because it involved Texas state courts deciding whether a legal malpractice claim arose under federal patent law, not to determine whether a federal

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<sup>1</sup> See, Petition for Writ of Certiorari, p. 23.

<sup>2</sup> Referring to *Air Measurement Technologies, Inc. v. Akin Gump Strauss Hauer & Feld, LLP*, 504 F.3d 1262, 1272 (Fed. Cir. 2007) and *Immunocept, LLC v. Fulbright & Jaworski, LLP*, 504 F.3d 1281 (Fed. Cir. 2007).

court could exercise jurisdiction over the claim, but to determine whether the state courts were forbidden from exercising jurisdiction over the claim. In contrast to section 1331, which merely describes an affirmative grant of power for federal courts to exercise jurisdiction over cases 'arising under' federal law, section 1338(a) both grants power for federal courts to exercise jurisdiction over cases 'arising under' patent law and also has a converse effect on the jurisdiction of state courts, which are specifically forbidden from exercising jurisdiction over the same scope of claims.

App. at \*4. Congress has highlighted this difference in the U.S. Code to emphasize the importance that has been placed on the uniformity of federal patent law, and which makes patent law a unique area of law in that it is subject only to the exclusive jurisdiction of federal courts.

The concurrence in the *Haynes and Boone* decision further notes that *Minton* is inapplicable to that case because *Minton* involves a legal dispute of federal patent law, not just a factual dispute. Note 2 of the concurrence by Justice Brown notes:

In *Minton*, there was a factual dispute regarding the applicability of the experimental use exception to the on-sale bar to patentability of the invention. The court of appeals' opinion reveals that there was also,

however, a legal dispute. *Minton v. Gunn*, 301 S.W.3d 702, 709 (Tex.App.—Fort Worth 2010), *rev'd on other grounds* 355 S.W.3d 634 (Tex. 2011) (noting that dispute was 'predominately one of fact'). In the court of appeals, the parties disagreed on the standard that applies for determining when testing is sufficient to constitute an experimental use. The plaintiff contended that 'experimental use is supported by any testing needed to convince the inventor that the invention is capable of performing its intended purpose in its intended environment.' *Id.* at 712 n. 46. The court of appeals disagreed and held that the testing must relate to a claimed feature of the patented invention. Applying this standard, the court of appeals concluded that the testing evidence offered by the inventor did 'not, as a matter of law, support experimental use.' *Id.* at 712. Because the court of appeals affirmed a no-evidence summary judgment on this basis, the disputed legal issue was critical to the ultimate issue in the case.

App. A at \*8, FN 2. *Minton* involves a substantial and disputed question of federal patent law that goes beyond the application of law to facts and which warrants the specialized knowledge of a federal court judge familiar with patent law.



Justice Brown points out that *Minton* is an “expressly limited holding.” *In re Haynes and Boone*, \*8. The Texas Supreme Court’s decision in this case cautions that all cases will have to meet the standards set by *Grable* in order to show that an embedded federal patent law issue warrants exclusive federal law jurisdiction. *Minton*, 355 S.W.3d at 646.

The Attorneys’ “sky is falling” approach is not convincing. They have overstated the risk that the Texas Supreme Court’s decision will lead to all kinds of embedded federal questions being swept into federal court. Furthermore, it is not the *Minton* decision, nor the *Air Measurement Technologies* decision, nor the *Immunocept* decision, that has led to the increase in legal malpractice claims overall or in patent and intellectual property cases in particular cited by the Attorneys in their reply.<sup>3</sup> Those increases could be due to multiple factors, including the economic downturn and the increase in the potential value of patents in technology-related fields. See *Embedded Federal Questions, Exclusive Jurisdiction and Patent-Based Malpractice Claims*, 51 William & Mary L. Rev. 1237, 1240 fn. 18 (2009) In any event, there is certainly no “flood” of cases being swept into federal court. Congress wants patent issues being decided in federal court that meet this jurisdictional standard. Any legislation overturning the reasoning used in *Air Measurement* and *Immunocept*, or *Grable & Sons Metal Prods., Inc. v. Darue Eng’g & Mfg.*, 545 U.S. 308 (2005) and *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800 (1988), was noticeably absent from the recently-passed America Invents Act, the first major act of

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<sup>3</sup> Reply Brief in Support of Petition for Writ of Certiorari, pp. 2-3.

patent law in more than fifty years. Finally, Congress recently had the opportunity to cure Petitioner's alleged fears and to restrict federal court jurisdiction relating to patents. But, instead of restricting federal court jurisdiction, Congress actually expanded federal court jurisdiction. The America Invents Act expresses Congress' intent to further strengthen exclusive federal jurisdiction over patent law claims by including counterclaims. *See* Brief in Opposition, pp. 20-21.

Rather than causing a landslide of such cases into federal court, the Texas Supreme Court's decision joins the multiple other decisions by both federal and state courts in correctly applying this Court's decisions in *Grable* and *Christianson* to find that exclusive federal jurisdiction applies where a disputed, substantial issue of federal patent law is an essential element of the plaintiff's claim.

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## CONCLUSION

This Court should deny the Petition for Writ of Certiorari because the only disputed issue in this case is the application of the experimental use exception to the on-sale bar doctrine and it is both a legal and factual dispute. Application of exclusive federal jurisdiction here does not disturb the delicate balance of state and federal interest, has not lead to all embedded federal issues being swept into federal court, nor will it result in disturbing the body of Texas legal malpractice law.

DATED: September 13, 2012

Respectfully submitted,

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# **SUPPLEMENTAL BRIEF**

MAR 30 2012

OFFICE OF THE CLERK

**In The  
Supreme Court of the United States**

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JERRY W. GUNN, INDIVIDUALLY, WILLIAMS SQUIRE  
& WREN, L.L.P., JAMES E. WREN, INDIVIDUALLY,  
SLUSSER & FROST, L.L.P., WILLIAM C. SLUSSER,  
INDIVIDUALLY, SLUSSER WILSON & PARTRIDGE,  
L.L.P., AND MICHAEL E. WILSON, INDIVIDUALLY,

*Petitioners,*

v.

VERNON F. MINTON,

*Respondent.*

---

**On Petition For A Writ Of Certiorari  
To The Supreme Court Of Texas**

---

**SUPPLEMENTAL BRIEF IN SUPPORT OF  
PETITION FOR A WRIT OF CERTIORARI**

---

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## ARGUMENT

### **A. The Federal Circuit is split regarding whether to reconsider its own jurisdictional standard.**

Petitioners file this supplemental brief in support of their pending petition for a writ of certiorari in order to bring to the Court's attention an important opinion from the Federal Circuit that was issued after the petition was filed in this action. The case is *Byrne v. Wood, Herron & Evans, L.L.P.*, No. 2011-1012 (Fed. Cir. Mar. 22, 2012). Supp. App. 1-40. In *Byrne* the Federal Circuit denied rehearing *en banc* on the issue of whether the court should revisit its jurisdictional rule that state law legal malpractice claims arising out of patent matters come within the federal courts' "arising under" jurisdiction. Two judges of the court dissented from the court's decision to deny rehearing *en banc* on the jurisdiction issue, because "it is time we stop exercising jurisdiction over state law malpractice claims." Supp. App. 9.

The Federal Circuit, which created the jurisdictional morass at issue in this case, is thus split within itself regarding whether to abandon the misguided and overly-broad jurisdictional standard it articulated in *Air Measurement Tech., Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 504 F.3d 1262 (Fed. Cir. 2007) and *Immunocept, L.L.C. v. Fulbright & Jaworski, L.L.P.*, 504 F.3d 1281 (Fed. Cir. 2007). Ten judges on the Federal Circuit voted to deny rehearing *en banc* and leave the court's jurisdictional standard in place, while two judges dissented.

The *Byrne* case thus illustrates two significant reasons why this Court should grant the petition in this case. First, the Federal Circuit is not going to correct the problem itself. The court's 10-2 split illustrates that the misguided *Air Measurement* standard will remain in place and continue to wreak havoc until this Court corrects it. Second, the dissenting opinion explains very starkly that the five years since *Air Measurement* was decided have proved just how misguided the Federal Circuit's jurisdiction standard is:

Ultimately, even if it was unclear in 2007 that our case law would sweep an entire class of state law malpractice actions into federal court, our recent experience renders no doubts about that point. And extending jurisdiction over these cases has done little, if anything, to promote uniformity in patent law.

Supp. App. 38.

**B. The Federal Circuit standard improperly departs from the *Grable* standard.**

The legal issue in this case is whether the Federal Circuit's standard for analyzing "arising under" jurisdiction, which the court adopted in *Air Measurement*, improperly deviates from the jurisdictional standard this Court articulated in *Grable & Sons Metal Products, Inc. v. Darue Eng'g & Mfg.*, 545 U.S. 308 (2005). In the *Byrne* case, the Federal Circuit denied rehearing *en banc* and declined to "revisit this

court's repeated holdings that where the outcome of malpractice cases turns on federal patent law, federal jurisdiction exists." Supp. App. 8-9. The dissenting opinion in *Byrne* explains convincingly why the Federal Circuit's standard is mistaken and why it is important to correct the problem. The dissent identifies the exact issues presented in the petition for certiorari in this case, and it supports a grant of review here.

As a threshold matter, the dissent in *Byrne* noted that *Grable* emphasized that "it will be the rare state . . . case that raises a contested matter of federal law." Supp. App. 16 (quoting *Grable*, 545 U.S. at 315). This Court later characterized *Grable* as carving out a "special and small category" of cases that come within "arising under" jurisdiction. *Empire Healthchoice Assurance, Inc. v. McVeigh*, 547 U.S. 677, 699-700 (2006). If a case is "fact-bound and situation-specific," the case "cannot be squeezed into the slim category *Grable* exemplifies." Supp. App. 17-18 (quoting *Empire*, 547 U.S. at 701). The Federal Circuit sharply expanded that "slim category" in *Air Measurement* in 2007, and since that time, the Federal Circuit has decided additional cases that "have gone so far as to extend § 1338 jurisdiction to cases in which no patent has issued and no actual patent rights are at stake." Supp. App. 21.

Post-*Grable*, the *Byrne* dissent notes, "Federal Circuit case law on this issue has been out of step with that of other federal and state courts." Supp. App. 22. "The analyses in the other circuit and

district court decisions have focused on two aspects of the *Grable* test to find that federal jurisdiction is lacking, namely that: (1) the federal issue, even if present and disputed, is not ‘substantial’; and (2) exercising jurisdiction would upend the appropriate federal-state division of judicial labor.” Supp. App. 23-24.

The Federal Circuit standard marginalizes the requirement in the *Grable* standard that any federal issue be “substantial” by equating “substantiality with whether the federal issue would actually need to be resolved in the context of the state law claim.” Supp. App. 30. The dissent in *Byrne* states that by “finding that whenever a federal issue is a necessary element of a plaintiff’s state law claim, the federal issue automatically is a substantial one, our case law has collapsed the inquiry and discarded substantiality as a separate consideration.” Supp. App. 30.

Regarding the critical federalism component of the *Grable* standard, the dissent in *Byrne* explains that the Federal Circuit standard has upended the balance between state and federal courts:

Indeed, in only the little more than four years since we decided [*Air Measurement*] and *Immunocept*, this court’s docket of patent-related malpractice cases, or the equivalent cases involving attorney fraud or breach of fiduciary duty, demonstrates that these are not the “rare” or “special and small category” of cases. In addition to the five decisions identified above, including [*Air Measurement*]

and *Immunocept*, this court heard argument in four more similar cases, including the present case, since May 2011 alone.

Supp. App. 33. The dissent concludes that, “far from having a ‘microscopic effect’ on the federal-state division of judicial labor, we have appropriated authority over an entire class of state law claims that traditionally belong in state court.” Supp. App. 34.

The dissent in *Byrne* laments that the Federal Circuit’s “case law has poisoned the well, and it will only serve to exacerbate the federalism concerns identified in *Grable* by drawing more and more state law claims into federal court.” Supp. App. 40. The Federal Circuit declined, *en banc*, to revisit its jurisdiction standard, but this case presents an opportunity to fix the problem. This Court should therefore grant the petition for a writ of certiorari in this case.

Respectfully submitted,

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Supp. App. 1

**United States Court of Appeals  
for the Federal Circuit**

---

**STEPHEN E. BYRNE,**  
*Plaintiff-Appellant,*

v.

**WOOD, HERRON & EVANS, LLP,  
DAVID S. STALLARD, KEVIN G. ROONEY,  
THEODORE R. REMAKLUS, P. ANDREW  
BLATT, AND WAYNE L. JACOBS,**  
*Defendants-Appellees.*

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2011-1012

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Appeal from the United States District Court for  
the Eastern District of Kentucky in case no. 08-CV-  
0102, Judge Danny C. Reeves.

---

**ON PETITION FOR REHEARING EN BANC**

---

JAMES A. JABLONSKI, Law Office of James A.  
Jablonski, of Denver, Colorado, filed a petition for re-  
hearing en banc for plaintiff-appellant.

J. ROBERT CHAMBERS, Wood, Herron & Evans,  
L.L.P., of Cincinnati, Ohio, filed a response to the pe-  
tition for defendants-appellees.

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Before RADER, *Chief Judge*, NEWMAN, LOURIE, BRYSON, GAJARSA,\* LINN, DYK, PROST, MOORE, O'MALLEY, REYNA, and WALLACH, *Circuit Judges*.

PER CURIAM.

DYK, *Circuit Judge*, with whom NEWMAN and LOURIE, *Circuit Judges*, join, concurs in the denial of the petition for rehearing en banc.

O'MALLEY, *Circuit Judge*, with whom WALLACH, *Circuit Judge*, joins, dissents from the denial of the petition for rehearing en banc.

### ORDER

A petition for rehearing en banc was filed by Plaintiff-Appellant, and a response thereto was invited by the court and filed by Defendants-Appellees. The petition for rehearing was referred to the panel that heard the appeal, and thereafter the petition for rehearing en banc and the response were referred to the circuit judges who are authorized to request a poll of whether to rehear the appeal en banc. A poll was requested, taken, and failed.

Upon consideration thereof,

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\* Judge Gajarsa participated in the decision for panel rehearing.

Supp. App. 3

IT IS ORDERED THAT:

(1) The petition of Plaintiff-Appellant for panel rehearing is denied.

(2) The petition of Plaintiff-Appellant for rehearing en banc is denied.

(3) The mandate of the court will issue on March 29, 2012.

FOR THE COURT

March 22, 2012

Date

/s/ Jan Horbaly

Jan Horbaly  
Clerk

---

**United States Court of Appeals  
for the Federal Circuit**

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**STEPHEN E. BYRNE,**  
*Plaintiff-Appellant,*

**v.**

**WOOD, HERRON & EVANS, LLP,  
DAVID S. STALLARD, KEVIN G. ROONEY,  
THEODORE R. REMAKLUS, P. ANDREW  
BLATT, AND WAYNE L. JACOBS,**  
*Defendants-Appellees.*

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2011-1012

---

Appeal from the United States District Court for  
the Eastern District of Kentucky in case no. 08-CV-  
0102, Judge Danny C. Reeves.

DYK, *Circuit Judge*, with whom NEWMAN and  
LOURIE, *Circuit Judges*, join, concurring in the denial  
of the petition for rehearing en banc.

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Under the Supreme Court's decision in *Chris-  
tianson v. Colt Industries Operating Corp.*, 486 U.S.  
800, 809 (1988), federal jurisdiction under 28 U.S.C.  
§ 1338 exists if "the plaintiff's right to relief necessar-  
ily depends on resolution of a substantial question of  
federal patent law, in that patent law is a necessary

element of one of the well-pleaded claims.” We have followed *Christianson* in subsequent cases involving legal malpractice, holding that federal jurisdiction exists, for example, “when the adjudication of the malpractice claim requires the court to address the merits of the plaintiff’s underlying patent infringement lawsuit,” *Warrior Sports, Inc. v. Dickinson Wright, P.L.L.C.*, 631 F.3d 1367, 1371 (Fed. Cir. 2011), and when a “claim drafting error is a necessary element of the malpractice cause of action,” *Immunocept, LLC v. Fulbright & Jaworski, LLP*, 504 F.3d 1281, 1285 (Fed. Cir. 2007). In so holding, we have recognized the strong federal interest in patent law uniformity as manifested by Congress’s decision to give exclusive jurisdiction to the federal district courts and on appeal to this court. See *Immunocept*, 504 F.3d at 1285-86; *Air Measurement Techs., Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 504 F.3d 1262, 1272 (Fed. Cir. 2007); see also *USPPS, Ltd. v. Avery Dennison Corp.*, 647 F.3d 274, 284 (5th Cir. 2011). All of the malpractice cases that we have held are within the scope of section 1338 as pleaded have required the resolution of substantive patent law issues.<sup>1</sup> The

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<sup>1</sup> See, e.g., *Warrior Sports*, 631 F.3d at 1372 (“[T]o prove the proximate cause and injury elements of its tort claim, Michigan law requires [plaintiff] to show that it would have prevailed on its infringement claim. . . .”); *Carter v. ALK Holdings, Inc.*, 605 F.3d 1319, 1325 (Fed. Cir. 2010) (“[T]he determination of [the patent attorney’s] compliance with the MPEP and the CFR is a necessary element of [plaintiff’s] malpractice cause of action. . . .”); *Davis v. Brouse McDowell, L.P.A.*, 596 F.3d 1355, 1360 (Fed. Cir. 2010) (“[Plaintiff] can prevail only by proving that U.S. patents

existence of these issues necessarily makes the issues “substantial” within the meaning of *Christianson*, 486 U.S. at 809, and indicates a “serious federal interest” in federal adjudication within the meaning of *Grable & Sons Metal Products, Inc. v. Darue Engineering & Manufacturing*, 545 U.S. 308, 313 (2005).

Judge O'Malley's dissent, in arguing that section 1338 does not confer jurisdiction over malpractice claims dependent on federal patent law, minimizes the substantial federal interest in federal adjudication of the patent law issues in these cases. Patent-related malpractice claims necessarily involve attorney conduct before the U.S. Patent and Trademark Office (“PTO”) or before the federal courts (because of our exclusive jurisdiction), and there is a substantial federal interest in ensuring that federal patent law questions are correctly and uniformly resolved in determining the standards for attorney conduct in these proceedings, even when the patent law issue is

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would have issued on her applications but for Defendants' malpractice – i.e., that her inventions were patentable under U.S. law.”); *Touchcom, Inc. v. Bereskin & Parr*, 574 F.3d 1403, 1413 (Fed. Cir. 2009) (“[Plaintiff] will be required to show that, had appellees not omitted a portion of the source code from its application, the resulting U.S. patent would not have been held invalid.”); *Immunocept*, 504 F.3d at 1285 (“[T]here is no way [plaintiff] can prevail without addressing claim scope.”); *Air Measurement Techs.*, 504 F.3d at 1269 (“[T]he district court will have to adjudicate, hypothetically, the merits of the infringement claim.”).



case-specific.<sup>2</sup> See generally *Grable*, 545 U.S. 308. Indeed, attorney conduct in patent cases is implicated by the patent law itself, such as by the doctrine of inequitable conduct, the exceptional-case statute, and the statutory provisions authorizing regulation of PTO practice. See *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276, 1290 (Fed. Cir. 2011) (en banc) (noting that an attorney's submissions to the PTO may be a basis for an inequitable conduct finding); *Brooks Furniture Mfg., Inc. v. Dutalier Int'l Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005) (noting that attorney misconduct may be a predicate for an exceptional case finding under 35 U.S.C. § 285); *Carter v. ALK Holdings, Inc.*, 605 F.3d 1319, 1324 (Fed. Cir. 2010) ("The standards for practice before the PTO are governed by federal law. . . ."). So too all federal patent rights are created by actions of a federal agency, the PTO. See *Grable*, 545 U.S. at 315 ("The Government thus has a direct interest in the availability of a federal forum to vindicate its own administrative action. . . .").

State court decisions imposing attorney discipline for conduct before the PTO and in federal patent litigation based on an incorrect interpretation of patent

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<sup>2</sup> In contrast, trademark-related malpractice claims such as those at issue in *Singh v. Duane Morris LLP*, 538 F.3d 334 (5th Cir. 2008), can involve conduct before the state courts. The Fifth Circuit specifically noted that the federal interest in patent cases is thus more substantial than in trademark cases. *Id.* at 340.

law are almost certain to result in differing standards for attorney conduct and to impair the patent bar's ability to properly represent clients in proceedings before the PTO and in the federal courts. Denying federal jurisdiction over these cases would allow different states to reach different conclusions as to the requirements for federal patent law in the context of state malpractice proceedings. There is a substantial federal interest in preventing state courts from imposing incorrect patent law standards for proceedings that will exclusively occur before the PTO and the federal courts. To be sure, with some exceptions,<sup>3</sup> state law governing attorney malpractice is not preempted by federal law. See *Kroll v. Finnerty*, 242 F.3d 1359, 1366 (Fed. Cir. 2001). But this hardly lessens the significant federal interest in the correct and uniform interpretation of federal patent law in the course of such state malpractice proceedings. That important interest supports recognizing federal jurisdiction where the outcome of the proceeding depends on an interpretation of federal patent law, and demonstrates that such adjudication does not upset the federal-state balance. See *Christianson*, 486 U.S. at 809.

I see no reason to revisit this court's repeated holdings that where the outcome of malpractice cases

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<sup>3</sup> See *Sperry v. Fla. ex rel Fla. Bar*, 373 U.S. 379, 385 (1963) (holding that Florida could not exercise "a virtual power of review" over PTO practice by prohibiting nonlawyers from engaging in patent practice).

turns on federal patent law, federal jurisdiction exists.

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O'MALLEY, *Circuit Judge*, with whom WALLACH, *Circuit Judge*, joins, dissenting from the denial of the petition for rehearing en banc.

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It is time we stop exercising jurisdiction over state law malpractice claims. I dissent from the court's refusal to consider this matter *en banc* so that the case law through which we have expanded the scope of our jurisdiction to these purely state law matters can be reconsidered and revamped.

This court has justified expanding the reach of our jurisdiction to cover state law malpractice claims by reading *Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800 (1988), to authorize our doing so. Specifically, our case law concludes that, whenever a patent law issue is raised in the context of a state law claim and must be resolved in the course of that otherwise state law inquiry, federal jurisdiction will lie, as will exclusive appellate jurisdiction in this court. That reading of *Christianson* is wrong, however. Supreme Court precedent permits federal courts to exercise federal question jurisdiction over state law claims *only* in the rare case where a federal issue is "actually disputed and substantial," and where doing so will not upset "any congressionally approved balance of federal and state judicial responsibilities."

*Grable & Sons Metal Prods., Inc. v. Darue Eng'g & Mfg.*, 545 U.S. 308, 314 (2005). "[T]he mere presence of a federal issue in a state cause of action does not automatically confer federal-question jurisdiction." *Merrell Dow Pharm. Inc. v. Thompson*, 478 U.S. 804, 813 (1986). Rather, courts must undertake a four-step inquiry as to whether: (1) a federal issue is a necessary element of a state law claim; (2) a federal issue is actually disputed; (3) a federal issue is substantial; and (4) exercising federal jurisdiction will disturb the balance of federal and state judicial responsibilities. *Grable*, 545 U.S. at 314. In choosing to exercise jurisdiction over malpractice claims arising out of patent matters, we have ignored the latter two parts of the inquiry.

Even if *Christianson's* directives were once ambiguous, subsequent Supreme Court case law has clarified the test in a way that leaves no doubt that our narrow reading of *Christianson* can no longer be justified. As discussed below, proper application of Supreme Court precedent demands that we decline to exercise jurisdiction over this and similar state law malpractice actions. Rather than force the Supreme Court to correct our jurisdictional mistakes, we should take this opportunity to do so ourselves.

## I.

Stephen Byrne originally brought this action in the Circuit Court of Kenton County, Kentucky, asserting a state law claim for legal malpractice based on

defendants' representation of Byrne in prosecuting a patent for a lawn care device. The gist of Byrne's malpractice case is that defendants negligently failed to secure broader patent protection for his invention from the United States Patent and Trademark Office ("PTO"), and, as a result, Byrne was unsuccessful in a subsequent patent infringement lawsuit against Black & Decker Corporation and related entities (collectively, "Black & Decker"). See *Byrne v. Black & Decker Corp.*, 2007 WL 1492101 (Fed. Cir. May 21, 2007). All agree that Byrne's claim is a purely state law claim for which federal law creates no cause of action.

Defendants removed the action to the United States District Court for the Eastern District of Kentucky, asserting jurisdiction under 28 U.S.C. § 1338, on grounds that Byrne's claim required resolution of an issue of patent law. Notice of Removal, *Byrne v. Wood, Herron & Evans, LLP*, No. 2:08-cv-102 (E.D. Ky. May 30, 2008), ECF No. 1. Specifically, defendants argued that, to prevail on his state law claim, Byrne would have to establish that he likely would have succeeded in a hypothetical infringement action based on the broader patent he says his counsel should have sought from the PTO. When Byrne moved to remand the action to state court, the district court denied the motion, relying on Federal Circuit case law to find that federal jurisdiction was proper under § 1338. See *Byrne v. Wood, Herron & Evans, LLP*, 2008 WL 3833699, at \*4 (E.D. Ky. Aug. 13, 2008) (citing *Air Measurement Techs., Inc. v. Akin Gump*



*Strauss Hauer & Feld, LLP*, 504 F.3d 1262, 1269 (Fed. Cir. 2007)). Accordingly, the case proceeded in federal court.

On appeal to this court, a majority of the panel agreed that our current case law extended § 1338 jurisdiction over this action but noted that, because it is inconsistent with Supreme Court precedent, that case law should be revisited. *See Byrne v. Wood, Herron & Evans, LLP*, 2011 WL 5600640, at \*5 (Fed. Cir. Nov. 18, 2011) (“Although we must adhere to our precedent, we believe this court should re-evaluate the question of whether jurisdiction exists to entertain a state law malpractice claim involving the validity of a *hypothetical* patent. . . .” (emphasis in original)). The panel then reluctantly resolved the merits of the appeal, and this petition for rehearing *en banc* followed.

## II.

This court has exclusive jurisdiction over appeals from district court decisions “if the jurisdiction of that court was based, in whole or in part, on § 1338.” 28 U.S.C. § 1295(a)(1) (2007). In turn, § 1338 provides in relevant part that “[t]he district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks.” 28 U.S.C. § 1338(a) (2007). Because the “arising under” language of § 1338 mirrors that of the general federal question jurisdiction statute, 28 U.S.C. § 1331, the



Supreme Court has “grafted § 1331 precedent onto its § 1338 analysis.” *Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc.*, 599 F.3d 1277, 1282 (Fed. Cir. 2010) (citing *Christianson*, 486 U.S. at 808-09).

Accordingly, consistent with decisions applying § 1331, the Supreme Court has outlined a two-prong test, in which district court jurisdiction under § 1338(a) extends “only to those cases in which a well-pleaded complaint establishes either [1] that federal patent law creates the cause of action or [2] that the plaintiff’s right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims.” *Christianson*, 486 U.S. at 808-09 (citations omitted). It is the second prong of the *Christianson* test that is at issue here, as it is in all state law malpractice actions, because no one contends that federal patent law creates Byrne’s cause of action.<sup>1</sup>

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<sup>1</sup> The Leahy-Smith America Invents Act amended §§ 1295 and 1338, but those amendments do not apply here because they are effective only for actions commenced on or after the date of its enactment, which postdates the initiation of the present litigation. See Leahy-Smith America Invents Act, Pub. L. No. 112-29, Sec. 19, 125 Stat. 284, 331-32 (2011) (“AIA”). Even if applicable, those changes would not affect this analysis because the amendments did not alter the key “arising under” language in § 1338. Indeed, Congress expressly decided not to alter the first sentence of § 1338 when it passed the AIA, as the Federal Circuit Bar had proposed it do, precisely so as to avoid “unsettling the law in ways that no one can fully anticipate.” H.R. Rep. No. 109-407, at 6 (2006) (quoting the testimony of Professor

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“[T]he vast majority of cases brought under the general federal-question jurisdiction of the federal courts are those in which federal law creates the cause of action.” *Merrell Dow*, 478 U.S. at 808.<sup>2</sup> The second prong of *Christianson* derives from the Supreme Court’s recognition that federal jurisdiction also may lie in limited circumstances where state law creates the cause of action but the action turns on construction of federal law. *Merrell Dow*, 478 U.S. at

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Arthur Hellman). The AIA’s legislative history makes clear that Congress did not intend to affect the second prong of the *Christianson* doctrine, which relates to the jurisdictional question at issue in this case – i.e., where a state law claim involves issues of patent law. See “*Holmes Group*,” the *Federal Circuit*, and the *State of Patent Appeals: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the House Comm. on the Judiciary*, 109th Cong., 1st Sess., 40 (Serial No. 109-7) (Mar. 17, 2005) (statement of Professor Arthur Hellman) (explaining that the second prong of the *Christianson* doctrine would continue to be applicable to limit federal court jurisdiction, under the version of the AIA adopted by Congress).

<sup>2</sup> Indeed, nearly a century ago in a case involving a patent issue, Justice Oliver Wendell Holmes, Jr. articulated a rule that would have excluded cases falling under the second prong of the *Christianson* test from federal court review, stating that “[a] suit arises under the law that creates the cause of action.” *Am. Well Works Co. v. Layne & Bowler Co.*, 241 U.S. 257, 260 (1916). Thus, in that case, a claim for libel based on allegedly false statements that the plaintiff’s product infringed the defendant’s patent was found not to invoke federal question jurisdiction. *Id.* at 259-60. The Court reasoned that, “[t]he fact that the justification [for the allegedly libelous statements] may involve the validity and infringement of a patent is no more material to the question under what law the suit is brought than it would be in an action of contract.” *Id.* at 260.

808-09 (citing *Franchise Tax Bd. of Cal. v. Constr. Laborers Vacation Trust for S. Cal.*, 463 U.S. 1, 9 (1983)). The Court has advised that this alternative basis for jurisdiction “must be read with caution” because “determinations about federal jurisdiction require sensitive judgments about congressional intent, judicial power, and the federal system.” *Id.* at 809-10. Because of the sensitive nature of the inquiry, the analysis requires “prudence and restraint.” *Id.* at 810 (citing *Franchise Tax Bd.*, 463 U.S. at 20).

The Supreme Court focused on these federalism concerns, and incorporated them into any jurisdictional inquiry taken under the second prong of *Christianson*, when it decided *Grable & Sons Metal Products, Inc. v. Darue Engineering & Manufacturing*, 545 U.S. 308, 313-14 (2005). In *Grable*, the Court explained that the exercise of federal jurisdiction is “subject to a possible veto,” even where a state law claim contains a contested and substantial federal question, if exercising jurisdiction is not “consistent with congressional judgment about the sound division of labor between state and federal courts.” *Grable*, 545 U.S. at 313-14. Accordingly, the Court articulated the test as follows: “does a state-law claim necessarily raise a stated federal issue, actually disputed and substantial, which a federal forum may entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities.” *Id.* at 314.

The facts of *Grable* are instructive for understanding the parameters of the test it announced. In

*Grable*, the Court considered whether a state law claim to quiet title that depended on an interpretation of a federal tax code provision properly invoked federal question jurisdiction. *Id.* at 310-11. In that case, the Internal Revenue Service ("IRS") seized Grable & Sons Metal Products, Inc.'s real property to satisfy a federal tax deficiency. *Id.* When the IRS later sold the seized property to Darue Engineering & Manufacturing, Grable sued Darue in state court to quiet title, alleging that the IRS's seizure notice was invalid because it did not comply with 26 U.S.C. § 6335(a). *Id.* at 311. The sole and dispositive issue in the case, therefore, was the interpretation of § 6335(a), specifically whether that statute required notice of seizure to be served personally, or whether service by certified mail was sufficient. Under the facts of that case, the Court concluded that the federalism balance weighed in favor of federal jurisdiction because "[t]he meaning of the federal tax provision is an important issue of federal law that sensibly belongs in a federal court." *Id.* at 315. It reasoned that "[t]he Government . . . has a direct interest in the availability of a federal forum to vindicate its own administrative action, and buyers (as well as tax delinquents) may find it valuable to come before judges used to federal tax matters." *Id.* at 315. The *Grable* Court emphasized, moreover, that "it will be the rare state title case that raises a contested matter of federal law," such that the effect on the federal-state balance will be only "microscopic." *Id.*

One year later, the Supreme Court made clear that, to the extent *Grable* authorizes the exercise of jurisdiction in cases where federal law does not directly create the cause of action, it is to be read narrowly. See *Empire Healthchoice Assurance, Inc. v. McVeigh*, 547 U.S. 677 (2006). In *Empire Healthchoice*, the Court concluded that federal question jurisdiction does not exist over a health insurance carrier's claim for reimbursement of insurance benefits, even where the carrier administered a plan for federal employees under a federal statute, and the federal statute included a clause preempting state law on issues relating to "coverage of benefits." *Id.* at 682-83. In doing so, the Court characterized *Grable* as carving out a "special and small category" of cases and found that the facts of *Empire Healthchoice* were "poles apart" from *Grable*. *Id.* at 699-700. The Court identified several factors that led the *Grable* Court to find federal question jurisdiction: (1) the dispute in that case centered on the action of a federal agency and its compliance with a federal statute; (2) the federal question was "substantial"; (3) resolution of the federal question was dispositive of the case; and (4) resolution of the federal question "would be controlling in numerous other cases." *Id.* at 700. The Court also highlighted that *Grable* presented a "nearly 'pure issue of law,'" unlike the "fact-bound and situation-specific" claim at issue in the case before it. *Id.* at 701 (quoting R. Fallon, D. Meltzer & D. Shapiro, *Hart and Wechsler's The Federal Courts and the Federal System* 65 (5th ed. 2003) (5th ed. Supp. 2005)). Because those factors were not present in *Empire*



*Healthchoice*, the Court concluded that the case “cannot be squeezed into the slim category *Grable* exemplifies.” *Id.*

### III.

#### A.

Even before *Grable* added an express federalism “veto” to the federal question analysis, courts widely understood that a state law tort claim, including one for legal malpractice, did not “arise under” federal law simply because the underlying subject matter of the alleged tort was federal in nature. *E.g.*, *Diaz v. Sheppard*, 85 F.3d 1502 (11th Cir. 1996) (finding no federal jurisdiction over a prisoner’s malpractice action alleging that his attorney, in an action under 42 U.S.C. § 1983, misunderstood the scope of the Eighth Amendment to the U.S. Constitution); *Custer v. Sweeney*, 89 F.3d 1156 (4th Cir. 1996) (finding no federal jurisdiction over an action against an attorney based on his allegedly negligent conduct in representing an employee benefit plan regulated by the Employee Retirement Income Security Act (“ERISA”)); *Berg v. Leason*, 32 F.3d 422 (9th Cir. 1994) (finding no jurisdiction over a malicious prosecution claim, where the allegedly unlawful prosecution was for violations of federal securities law and the Racketeering Influenced and Corrupt Organizations (“RICO”) Act).

Notably, before the Federal Circuit addressed this issue in 2007, the result was no different for state law malpractice claims involving an underlying patent



prosecution or litigation matter. *E.g.*, *Adamasu u. Gifford, Krass, Groh, Sprinkle, Anderson & Citkowski, P.C.*, 409 F. Supp. 2d 788 (E.D. Mich. 2005) (remanding a legal malpractice claim alleging negligent patent prosecution); *New Tek Mfg., Inc. v. Beehner*, 702 N.W.2d 336 (Neb. 2005) ("*New Tek I*") (finding that state court jurisdiction is proper over a malpractice claim in which the plaintiff would have to prove, under its properly construed patent claims, that it would have prevailed in a patent infringement action).<sup>3</sup> As one court noted, "[s]imply because the defendants rendered advice on a matter governed by federal law and prosecuted a patent through a federal agency does not constitute an issue that 'arises under any Act of Congress relating to patents,' as 28 U.S.C. § 1338 requires." *Adamasu*, 409 F. Supp. 2d at 792.

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<sup>3</sup> See also *IMT, Inc. v. Haynes & Boone, L.L.P.*, 1999 WL 58838 (N.D. Tex. Feb. 1, 1999) (remanding a legal malpractice claim to state court where the plaintiff alleged that its attorney's negligence in filing a continuation-in-part patent application instead of a new patent application raised questions about the patent's validity and enforceability); *Commonwealth Film Processing, Inc. v. Moss & Rocovich, P.C.*, 778 F. Supp. 283 (W.D. Va. 1991) (remanding malpractice action based on an attorney's alleged lack of patent knowledge); *Minatronics Corp. v. Buchanan Ingersoll P.C.*, 28 Pa. D. & C.4th 214 (Pa. Comm. Pl. 1996) (finding no jurisdiction over a claim for malpractice based on a missed patent application filing deadline, even though the court would have to determine whether a patent would have issued); *Fotodyne, Inc. v. Barry*, 449 N.W.2d 337 (Wis. Ct. App. Sept. 26, 1989) (unpublished) (finding that state court jurisdiction is proper in a malpractice action based on an attorney's failure to notify his client that the PTO had rejected his patent application).

## B.

In 2007, the Federal Circuit weighed in on this issue in what one commentator has described as a “substantial shift in the view of whether federal or state courts have jurisdiction over patent-related legal malpractice claims.” Robert W. Hesselbacher, Jr., *Which Court Decides? Legal Malpractice Claims Arising from Patents*, 51 No. 5 DRIFTD 32 (May 2009). In that year, a single panel of this court issued two decisions on the same day that, according to the panel, resolved an “issue of first impression” – i.e., whether § 1338 jurisdiction exists where a legal malpractice claim requires resolution of an underlying question of patent law. See *Air Measurement Techs., Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 504 F.3d 1262 (Fed. Cir. 2007) (“AMT”); *Immunocept, LLC v. Fulbright & Jaworski, LLP*, 504 F.3d 1281 (Fed. Cir. 2007).

Since 2007, this court has issued three more precedential decisions applying *AMT* and *Immunocept* to other malpractice claims involving an underlying patent prosecution or litigation error. See *Warrior Sports, Inc. v. Dickinson Wright, P.L.L.C.*, 631 F.3d 1367 (Fed. Cir. 2011) (vacating district court’s order remanding a malpractice claim alleging patent prosecution errors); *Davis v. Brouse McDowell, L.P.A.*, 596 F.3d 1355 (Fed. Cir. 2010) (finding § 1338 jurisdiction over a malpractice claim based on an attorney’s failure to file timely patent applications); *Touchcom, Inc. v. Bereskin & Parr*, 574 F.3d 1403 (Fed. Cir. 2009) (finding that the plaintiff’s malpractice claims

alleging patent prosecution errors arose under federal law). Through these cases, we have gone so far as to extend § 1338 jurisdiction to cases in which no patent has issued and no actual patent rights are at stake. *See Davis*, 596 F.3d at 1361-62 (extending jurisdiction where the plaintiff would have to prove that, but for her attorney's missed patent application filing deadline, her invention *would have been patentable*).<sup>4</sup>

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<sup>4</sup> The panel majority in the present matter emphasized that cases involving only a hypothetical patent clearly do not implicate a substantial federal interest. *See Byrne v. Wood, Herron & Evans, LLP*, 2011 WL 5600640, at \*5 (Fed. Cir. Nov. 18, 2011) (“[W]e believe this court should re-evaluate the question of whether jurisdiction exists to entertain a state law malpractice claim involving the validity of a *hypothetical* patent. . . .” (emphasis in original)). Other courts have articulated the same point. *E.g., Roof Technical Servs., Inc. v. Hill*, 679 F. Supp. 2d 749, 753 (N.D. Tex. 2010) (Explaining that, “there is a federal interest in the uniform application of patent laws, but that interest is not implicated here, where no patent rights are actually at stake”); *Genelink Biosciences, Inc. v. Colby*, 722 F. Supp. 2d 592, 598-99 (D.N.J. 2010) (Finding that “because no patent was issued, no patent rights are at stake, and there are therefore no fears that substantive patent law would [be] altered by inconsistency”). Such cases present the most clear-cut situation in which federal question jurisdiction is not appropriate because they have *zero* potential impact on the validity or enforceability of an issued patent. But that should not suggest that malpractice cases in which the underlying actions involved issued patents properly belong in federal court. In virtually every patent-related malpractice action that requires a “case within a case” analysis, there will be a hypothetical patent issue raised – i.e., in a world where no malpractice occurred, would the patentee have fared better, for example, in its patent application or infringement suit? In that sense, the patent issue in any malpractice action will involve only an academic inquiry

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## C.

Federal Circuit case law on this issue has been out of step with that of other federal and state courts. In post-*Grable* cases involving state law tort claims that involve any federal law other than patent law, courts correctly follow a restrictive approach to federal question jurisdiction in finding that such cases belong in state court. Indeed, even where state law claims involve federal law questions over which federal courts have exclusive jurisdiction (e.g., Sherman Act, copyright), other areas of § 1338 jurisdiction (e.g., trademark, copyright), areas that are uniquely federal in nature (e.g., federal criminal law, federal tax code, aviation standards), or more garden-variety federal issues (e.g., Title VII, Age Discrimination in Employment Act ("ADEA")), courts consistently find that such claims do not invoke federal court jurisdiction. *E.g.*, *Adventure Outdoors, Inc. v. Bloomberg*, 552 F.3d 1290 (11th Cir. 2008) (claims of negligence and defamation requiring interpretation of the legality of gun sales under federal criminal gun statutes); *Singh v. Duane Morris LLP*, 538 F.3d 334 (5th Cir. 2008) (trademark malpractice claims)<sup>5</sup>; *Mikulski v.*

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into what likely would have happened absent the attorney negligence, and the answer will affect only the result of the state law claim, not the rights or scope of any live patent.

<sup>5</sup> Although another panel on that circuit recently distinguished *Singh* from a case involving a fraud claim relating to a failed patent application, it did so in a conclusory analysis based almost wholly on our case law. *See USPPS, Ltd. v. Avery Dennison Corp.*, 647 F.3d 274, 281-82 (5th Cir. 2011). The Fifth

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*Centerior Energy Corp.*, 501 F.3d 555 (6th Cir. 2007) (en banc) (claims for breach of contract and fraud that required interpretation of federal tax code provision); *Bennett v. Sw. Airlines Co.*, 484 F.3d 907 (7th Cir. 2007) (negligence and other claims relating to activity governed by federal aviation law).<sup>6</sup>

#### D.

The analyses in the other circuit and district court decisions have focused on two aspects of the *Grable* test to find that federal jurisdiction is lacking,

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Circuit's analysis in *USPPS* is erroneous for the same reasons our case law is incorrect. The *USPPS* case also demonstrates that our case law continues to upset the federalism balance by extending federal question jurisdiction to cases even beyond those asserting traditional malpractice claims.

<sup>6</sup> See also *RX.com, Inc. v. O'Quinn*, 766 F. Supp. 2d 790 (S.D. Tex. 2011) (malpractice based on underlying antitrust lawsuit under the Sherman Act); *Mr. Bar-B-Q, Inc. v. Natter & Natter*, 2011 WL 2015574 (S.D.N.Y. May 18, 2011) (trademark malpractice claims); *Steele v. Salb*, 681 F. Supp. 2d 34 (D.D.C. 2010) (malpractice based on underlying Title VII action); *Paulet v. Farlie, Turner & Co., LLC*, 2010 WL 2232662 (S.D. Fla. June 2, 2010) (whistleblower claim that required a determination of whether actions constituted copyright infringement); *Anderson v. Johnson*, 2009 WL 2244622 (N.D. Ill. July 27, 2009) (malpractice claim based on underlying copyright infringement action); *Higbee v. Malleris*, 470 F. Supp. 2d 845 (N.D. Ill. 2007) (malpractice based on underlying Title VII and ADEA action). But see *Katz v. Holland & Knight LLP*, 2009 WL 367204 (E.D. Va. Feb. 12, 2009) (relying on our case law to find federal jurisdiction over claims for fraud and breach of fiduciary duty, where the plaintiff alleged that attorneys misrepresented the strength of a copyright claim).



namely that: (1) the federal issue, even if present and disputed, is not “substantial”; and (2) exercising jurisdiction would upend the appropriate federal-state division of judicial labor. As explained below, this court’s erroneous approach to both of those considerations has caused it to extend its jurisdiction improperly to patent-related malpractice claims.

1.

As to substantiality of the federal issue, the Supreme Court, and regional circuit courts applying Supreme Court decisions, have identified certain considerations that affect whether a federal issue is “substantial”: (1) if the issue is a “pure question of law,” rather than one that is “fact-bound and situation-specific”; (2) the federal government’s interest in the issue, including whether it implicates a federal agency’s ability to vindicate its rights in a federal forum and whether resolution of the issue would be controlling in numerous other cases; and (3) if resolution of the federal issue is dispositive of the case at hand. *Empire Healthchoice*, 547 U.S. at 700-01 (analyzing *Grable*, 545 U.S. at 313); *Adventure Outdoors*, 552 F.3d at 1299-1301; *Mikulski*, 501 F.3d at 570. Application of these considerations to patent-related malpractice actions, including the present case, reveals that the patent issues arising in such cases are not “substantial.”

First, none of the patent-related malpractice cases over which we have found § 1338 jurisdiction



involved pure questions of law; rather, they required only fact-specific applications of patent laws to the circumstances of each case. In *AMT*, for example, we explained that “the district court will have to adjudicate, hypothetically, the merits of the infringement claim.” *AMT*, 504 F.3d at 1269. The “patent issue” we identified, therefore, required the district court to consider only the hypothetical question of infringement under the facts of that particular case. The question of patent infringement, moreover, is a question of fact. *E.g.*, *Absolute Software, Inc. v. Stealth Signal, Inc.*, 659 F.3d 1121, 1129-30 (Fed. Cir. 2011).

Even where courts must consider whether, absent a claim drafting or prosecution error, a valid patent would have issued, the only question is whether a different patent could have issued *under the particular circumstances of that case*. Those cases, therefore, do not require courts to interpret or consider the “meaning” of a patent statute, as opposed to merely applying the patent laws to the facts of a particular case. In undertaking that task, state courts and regional circuit courts, of course, can rely on and apply the body of patent law the Federal Circuit has developed. *See Tafflin v. Levitt*, 493 U.S. 455, 465 (1990) (finding that state courts applying RICO statutes will be “guided by federal court interpretations of the relevant federal criminal statutes, just as federal courts sitting in diversity are guided by state court interpretations of state law”); *Adventure Outdoors*, 552 F.3d at 1300 (same); *Mikulski*, 501 F.3d at 560 (“We are mindful that state courts are generally presumed

competent to interpret and apply federal law.” (citation omitted)).

In short, the patent-related malpractice claims over which we have extended our jurisdictional reach require only application of patent laws to the facts of a case, and they do not implicate the “validity, construction, or effect” of the patent laws. *Grable*, 545 U.S. at 313 (quoting *Shulthis v. McDougal*, 225 U.S. 561, 569 (1912)). In other words, “[w]hat the Court said about *Grable* in *Empire Healthchoice* can be said here too. We have a fact-specific application of rules that come from both federal and state law rather than a context-free inquiry into the meaning of a federal law.” *Bennett*, 484 F.3d at 910. Accordingly, these malpractice cases present questions that are nothing like the pure interpretation of the federal tax code provision at issue in *Grable*.

Second, although the federal government has an interest in the uniformity of patent law, state court adjudication of patent-related malpractice actions does not pose a serious threat to that interest. Most of the recent malpractice cases on this court’s docket turn on state law matters such as statutes of limitations, statutes of repose, or evidentiary issues. *E.g.*, *Memorylink Corp. v. Motorola, Inc.*, Case No. 1:09-cv-7401 (N.D. Ill. Aug. 5, 2010), ECF No. 75 (granting motion to dismiss malpractice claim as barred by the Illinois statutes of limitations and repose), *aff’d*, 2011 WL 6095502 (Fed. Cir. Dec. 8, 2011); *Byrne v. Wood, Herron & Evans, LLP*, 2011 WL 5600640, at \*5 (Fed. Cir. Nov. 18, 2011) (finding that district court abused

its discretion in excluding expert testimony under Kentucky law); *USPPS, Ltd. v. Avery Dennison Corp.*, 2010 WL 2802529 (W.D. Tex. June 4, 2010) (finding that fraud and breach of fiduciary duty claims are barred by the statute of limitations under Texas law), *appeal docketed*, No. 2011-1525 (Fed. Cir. Aug. 15, 2011). Even where a state court would be required to opine on issues of patent law, its decisions would have no precedential effect on federal case law. *See Adventure Outdoors*, 552 F.3d at 1301 (“[T]he state court interpretation of the gun statutes will not be controlling in numerous other cases because it will not have precedential effect in the federal system”). Further, patent-related malpractice claims do not implicate any underlying patent rights themselves, and instead require consideration of patent law only to inform the state law standards of causation or damages. For example, a state court’s determination that a plaintiff would have succeeded on his infringement claim is only relevant to whether the plaintiff can establish causation for purposes of his malpractice claim; it does not result in an adjudication that the defendant in the prior action was an infringer.

Unlike in *Grable*, these cases also do not present situations that require courts to determine whether an action of a federal agency complied with a federal statute. *Empire Healthchoice*, 547 U.S. at 700 (explaining that *Grable* “centered on the action of a federal agency (IRS) and its compatibility with a federal statute”). These are actions between two private parties, and the federal government’s interest in

uniformity of patent laws does not extend to a civil dispute between a client and his lawyer over the adequacy of the lawyer's representation. *See Singh*, 538 F.3d at 339 ("It cannot be said that federal trademark law evinces any substantial federal interest in regulating attorney malpractice."); *Mikulski*, 501 F.3d at 570 ("While the federal government may have an interest in the uniform application of regulations that relate to the collection of taxes, it has only a limited interest in private tort or contract litigation over the private duties involved in that collection.").

Allowing state courts to resolve malpractice actions, moreover, does not restrict the ability of any federal agency to vindicate its rights in a federal forum. Unlike in *Grable*, which recognized the government's strong interest in "the ability of the IRS to satisfy its claims from the property of delinquents," 545 U.S. at 315, state court adjudication of patent-related malpractice claims does not impair the PTO's ability to operate. For example, if a state court finds that, but for an attorney's claim-drafting error, a patent likely *would* have issued, that determination does not sidestep the PTO's examination process and result in a duly issued patent. It merely supports the causation element of the plaintiff's malpractice claim. That is far different from *Grable*, where a state court would be deciding whether the IRS's seizure notice was effective based on its interpretation of the federal tax code provision at issue.

Finally, resolution of the patent issue in these malpractice actions will not be dispositive. The patent

issues in these cases relate to the causation or damages element of the plaintiff's state law claim; state law generally requires malpractice plaintiffs also to prove breach – i.e., that the defendant attorney breached a duty of care to the plaintiff or did not exercise the ordinary care of a reasonably competent attorney. Thus, in this case for example, if Byrne can prove that a broader patent *could* have issued, Kentucky law still requires him to prove that his attorneys, in acquiescing to the examiner's requirement to add to a claim limitation, neglected their duty to exercise the ordinary care of a reasonably competent attorney. *Stephens v. Denison*, 150 S.W.3d 80, 81 (Ky. Ct. App. 2004). The fact that the patent issue in a malpractice action is not the sole, dispositive issue in the case strongly cuts against the conclusion that it is a “substantial” one. *See, e.g., Franchise Tax Bd.*, 463 U.S. at 26 (explaining that, if “there are many reasons completely unrelated to the provisions and purposes of [the patent laws] why the [plaintiff] may or may not be entitled to the relief it seeks,” then the claim does not “arise under” those laws. (footnote omitted)).

Despite the many factors that militate against finding that a patent law issue in a malpractice case is not “substantial,” our case law has given the question of substantiality only cursory consideration. In our seminal decision on this issue, the panel in *AMT* found that the issue of hypothetical patent infringement was “substantial” merely because it was a necessary element of the plaintiff's malpractice claim.



*AMT*, 504 F.3d at 1269 (“[P]atent infringement is a ‘necessary element’ of *AMT*’s malpractice claim and therefore apparently presents a substantial question of patent law conferring § 1338 jurisdiction.” (citing *Christianson*, 486 U.S. at 809)). In other words, the panel equated substantiality with whether the federal issue would actually need to be resolved in the context of the state law claim. As the discussion above demonstrates, the analysis in *AMT* is not only incomplete, it is incorrect.

By finding that whenever a federal issue is a necessary element of a plaintiff’s state law claim, the federal issue automatically is a substantial one, our case law has collapsed the inquiry and discarded substantiality as a separate consideration. But that is contrary to *Christianson*, as clarified in *Grable*, which expressly requires that a federal issue be both necessary and substantial. See *Grable*, 545 U.S. at 314 (“It has in fact become a constant refrain in such cases that federal jurisdiction demands not only a contested federal issue, but a substantial one, indicating a serious federal interest in claiming the advantages thought to be inherent in a federal forum.”); *Merrell Dow*, 478 U.S. at 810 (“[T]he mere presence of a federal issue in a state cause of action does not automatically confer federal-question jurisdiction.”); *Adventure Outdoors*, 552 F.3d at 1299 (“Although the plaintiffs’ complaint raises a contested federal issue, the nature of the dispute between the parties suggests that this issue does not meet *Grable*’s substantiality requirement.”); *Mikulski*, 501 F.3d 572-73 (6th Cir. 2007)



(finding no jurisdiction, even where the federal issue was a necessary element and actually disputed, because the federal issue was not “substantial”). Because this court’s analysis is erroneous, and because the patent issues in patent-related malpractice actions are not “substantial,” § 1338 jurisdiction does not extend to such cases. For that reason alone, our case law holding otherwise should be overruled.

2.

Our case law conflicts with Supreme Court precedent in another way as well. As noted above, *Grable* also requires courts to consider whether a state law claim is one “which a federal forum may entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities.” *Grable*, 545 U.S. at 314. Thus, even if a patent issue is substantial and disputed, § 1338 jurisdiction will not lie if federal jurisdiction would upset the federal-state division of judicial labor. *Id.* at 313-14. Exercising § 1338 jurisdiction over patent-related malpractice claims fails this analysis.

As the Fifth Circuit noted in *Singh*, the argument for extending federal jurisdiction over malpractice claims involving a federal issue “reaches so broadly that it would sweep innumerable state-law malpractice claims into federal court.” 538 F.3d at 340. Because all malpractice plaintiffs must prove that they would have prevailed in the prior suits, or otherwise would have achieved a better outcome,

“federal jurisdiction could extend to every instance in which a lawyer commits alleged malpractice during the litigation of a federal claim.” *Id.* Such a result violates *Grable*’s federalism concerns, and there is no reason why the same analysis should not apply to malpractice actions in which the underlying federal claim involves patent law.

By contrast, however, in *AMT* we reasoned that “we would consider it illogical for the Western District of Texas to have jurisdiction under § 1338 to hear the underlying infringement suit and for us then to determine that the same court does not have jurisdiction under § 1338 to hear the same substantial patent question in the ‘case within a case’ context of a state malpractice claim.” *AMT*, 504 F.3d at 1269. But that is precisely the logic that would sweep into the federal courts *every* case in which an allegation of malpractice stemmed from an underlying federal matter. Such an approach directly conflicts with what *Grable* contemplated – the “rare” state law claim that invokes federal jurisdiction and has only “a microscopic effect on the federal-state division of labor.” *Grable*, 545 U.S. at 314. It is also inconsistent with the view that such cases are the “special and small category” of cases where federal jurisdiction over a state law cause of action is appropriate. *Empire Healthchoice*, 547 U.S. at 699.

Indeed, in only the little more than four years since we decided *AMT* and *Immunocept*, this court’s docket of patent-related malpractice cases, or the equivalent cases involving attorney fraud or breach of

fiduciary duty, demonstrates that these are not the “rare” or “special and small category” of cases. In addition to the five decisions identified above, including *AMT* and *Immunocept*, this court heard argument in four more similar cases, including the present case, since May 2011 alone.<sup>7</sup> See *Byrne v. Wood, Herron & Evans, LLP*, 2011 WL 5600640 (Fed. Cir. Nov. 18,

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<sup>7</sup> There are also more patent-related malpractice cases that do not reach this court either because a state court has disagreed with our analysis, thus preventing the matter from entering the federal court system, or because district courts – somewhat brazenly perhaps – have chosen not to follow our analysis in a removed action, resulting in remand orders that we lack jurisdiction to review. See *New Tek Mfg., Inc. v. Beehner*, 751 N.W.2d 135, 144 (Neb. 2008) (“*New Tek II*”) (refusing to reconsider its prior finding that state court jurisdiction was proper, even in light of our *AMT* and *Immunocept* decisions); *Genelink Biosciences, Inc. v. Colby*, 722 F. Supp. 2d 592, 598-99 (D.N.J. 2010) (remanding a patent-related legal malpractice case for lack of subject matter jurisdiction); *ARC Prods., L.L.C. v. Kelly*, 2010 WL 4363427, at \*2 (E.D. Mo. Oct. 27, 2010) (acknowledging our cases but siding with a contrary district court decision in deciding to remand a patent malpractice action). We have noted the awkward situation this court faces when it receives appeals over which it lacks jurisdiction but which clearly are contrary to the court’s case law. See, e.g., *Genelink BioSciences, Inc. v. Colby*, 423 Fed. Appx. 977, 978 (Fed. Cir. May 25, 2011) (“While the District of New Jersey’s jurisdictional determination appears contrary to this court’s precedent, it does not follow that this court has authority to grant Colby’s requested relief.”); *ARC Products, L.L.C. v. Kelly*, 424 Fed. Appx. 944, 945 (Fed. Cir. May 25, 2011) (“This court has recently issued decisions that appear to directly undermine the district court’s jurisdictional determination. . . . Nonetheless, we agree with ARC that this court is precluded from exercising jurisdiction over the district court’s remand order.”).

2011); *Minkin v. Gibbons, P.C.*, 2010 WL 5419004 (D.N.J. Dec. 23, 2010), *appeal docketed*, No. 2011-1178 (Fed. Cir. Jan. 24, 2011); *Memorylink Corp. v. Motorola*, 2011 WL 6095502 (Fed. Cir. Dec. 8, 2011); *USPPS, Ltd. v. Avery Dennison Corp.*, 2010 WL 2802529 (W.D. Tex. June 4, 2010), *appeal docketed*, No. 2011-1525 (Fed. Cir. Aug. 15, 2011). This trend will only increase, as the number of patent-related malpractice cases is on the rise. See Christopher G. Wilson, *Embedded Federal Questions, Exclusive Jurisdiction, and Patent-Based Malpractice Claims*, 51 WM. & MARY L. REV. 1237, 1240 (2009) (“[A]ggrieved clients are bringing more claims against patent attorneys” (citing Am. Bar Ass’n Standing Comm. on Lawyers’ Prof’l Liab., *Profile of Legal Malpractice Claims 2004-2007*, at 4 tbl. 1 (2008))). Accordingly, far from having a “microscopic effect” on the federal-state division of judicial labor, we have appropriated authority over an entire of class of state law claims that traditionally belong in state court.

Because our circuit is an outlier, moreover, our case law produces the odd result that malpractice claims stemming from an underlying federal suit will only belong in federal court when the federal issue is one of patent law. That result is peculiar because states undoubtedly have a strong interest and role in regulating the conduct of *all* of their respective attorneys, as well as in protecting *all* of their residents from negligent legal services. *E.g.*, *Custer*, 89 F.3d at 1167 (“[T]he law governing legal malpractice represents a traditional exercise of state authority.”); *cf.*

*Middlesex Cnty. Ethics Comm. v. Garden State Bar Ass'n*, 457 U.S. 423, 434 (1982) (in determining that federal courts should abstain from interfering in state bar disciplinary proceedings, finding that “[t]he State of New Jersey has an extremely important interest in maintaining and assuring the professional conduct of the attorneys it licenses.”). But we have usurped the states’ role when those attorneys happen to practice patent law, or when residents of the state happen to seek legal counsel for a patent law issue. That result is not tenable under any application of the *Grable* test, and there is nothing in our decisions that justifies it.

When we addressed *Grable*’s federalism concerns, the panel in *AMT* engaged in only a short analysis, noting simply that “[t]here is a strong federal interest in the adjudication of patent infringement claims in federal court because patents are issued by a federal agency,” litigants will benefit from federal judges who have patent experience, and “[i]n § 1338, Congress considered the federal state-division of labor and struck a balance in favor of this court’s entertaining patent infringement.” *AMT*, 504 F.3d at 1272. There are several problems with the *AMT* panel’s reasoning. While it is true that there is a strong federal interest in the adjudication of “patent infringement” in federal court, and that Congress intended that this court would entertain “patent infringement” actions, we are dealing with state law tort claims, not patent infringement actions. State courts addressing the traditional state law domain of attorney malpractice



only will need to consider patent law issues to the extent necessary to determine whether a tort plaintiff has shown causation or established a right to damages. Indeed, within the context of a state law malpractice claim, any question that ostensibly involves application of patent law would be a factual question, left to the fact-finder to decide based on the testimony of competing experts, who could opine on whether a judgment of infringement would have been likely, a hypothetical patent would have issued, or a defense of inequitable conduct might have succeeded. That is like any other malpractice case, where experts are called upon to opine on whether a plaintiff would have fared better if the defendant exercised greater care.

The *AMT* panel's analysis of the federalism issue is also so basic that it would apply to every underlying federal issue. In any matter involving a federal issue, there will always be some federal interest in having the matter proceed in federal court, and litigants will always benefit to some degree from having the judges in those courts hear the matter. But we must be mindful of the fact that the patent issues in these cases are only incidental to the state law tort claim, and that states have at least an equally strong interest in adjudicating allegations of attorney negligence. Accordingly, simply reciting a federal interest in patent law uniformity is not enough. Three justices of the Texas Supreme Court, in dissent, recently criticized this court's federalism analysis on these very grounds, expressing the view that, "[u]nfortunately,



the Federal Circuit has not remained faithful to the Supreme Court's federalism inquiry in the context of malpractice decisions arising from patent cases," and that, "under the Federal Circuit's approach, the federalism element is simply an invocation of the need for uniformity in patent law." *Minton v. Gunn*, 355 S.W.3d 634, 652 (Tex. 2011) (Guzman, J., dissenting).

Allowing state courts to decide patent-related malpractice claims simply does not pose a threat to the uniformity of patent law. State court decisions addressing patent law issues in the context of a state law tort claim would have no precedential effect on federal courts. See *Tafflin v. Levitt*, 493 U.S. at 465 (finding that concurrent state court jurisdiction over RICO claims will not affect the uniformity of the federal law, because federal courts "would not be bound by state court interpretations of the federal offenses constituting RICO's predicate acts"); *Adventure Outdoors*, 552 F.3d at 1301 ("state court interpretation of the gun statutes . . . will not have precedential effect in the federal system." (citing *Tafflin*)). In addition, the Supreme Court retains ultimate review of state court actions, which further mitigates any such concern. See *Merrell Dow*, 478 U.S. at 815 ("Petitioner's concern about the uniformity of interpretation, moreover, is considerably mitigated by the fact that, even if there is no original district court jurisdiction for these kinds of action, this Court retains power to review the decision of a federal issue in a state cause of action.").

Practical experience confirms this point. For example, in *New Tek I* and *New Tek II*, the Nebraska state courts disagreed with our jurisdictional analysis and ably resolved a patent-related malpractice action that required application of patent laws. See *New Tek I*, 702 N.W.2d 336 (Neb. 2005); *New Tek II*, 751 N.W.2d 135 (Neb. 2008). That case required the court to construe the claims of an expired patent, consider the chances of success in an infringement action, and resolve an issue relating to prosecution history estoppel. The state court relied on and applied the body of patent law this court has developed to resolve the issues before it, and it addressed the patent issues to the extent necessary to adjudicate the plaintiff's malpractice claim. Not surprisingly, in the seven years since *New Tek I* issued, no federal court has cited the *New Tek* decisions for any patent law proposition, or for anything other than the jurisdictional question I now address. In short, although a state court in Nebraska held a *Markman* hearing to construe the claims of an expired patent, the uniform nature of federal patent law has remained intact.

Ultimately, even if it was unclear in 2007 that our case law would sweep an entire class of state law malpractice actions into federal court, our recent experience renders no doubt about that point. And extending jurisdiction over these cases has done little, if anything, to promote uniformity in patent law. More often, these malpractice cases require this court to resolve nuanced state law issues regarding statutes of limitations or causation. There is no principled

reason why state courts cannot apply federal patent law to resolve factual issues relating to causation or damages in state law tort claims, or why such an application poses any threat to this court's interpretation of those laws. In short, there can be little doubt that extending § 1338 jurisdiction over patent-related malpractice claims violates *Grable's* federalism concerns.

#### IV.

Finally, although other courts have begun either to follow our case law in addressing patent-related state law claims, or have distinguished our decisions on the grounds that patent law is unusual, we should not be misled into believing that those cases endorse our analysis. Rather, they reflect the deference other courts give to the Federal Circuit on patent law issues based on our unique appellate jurisdiction.<sup>8</sup> Unfortunately, those decisions also have the consequence of confusing what would otherwise be a fairly uniform

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<sup>8</sup> Actually, in many instances, they simply reflect an effort to distinguish our cases – using our experience in patent matters as a facile way to explain away circuit case law that is inconsistent with applicable, governing standards. *E.g.*, *Adventure Outdoors*, 552 F.3d at 1290 (distinguishing *AMT* as “best understood in the context of patent law...”); *Steele*, 681 F. Supp. 2d at 37 (distinguishing the “uniquely federal nature of federal patent law” from the “garden variety federal law” of Title VII); *Anderson*, 2009 WL 2244622, at \*3 (explaining that [f]ederal courts are viewed as having developed a special competency in matters of patent law”).

approach among the state and federal courts. Our case law has poisoned the well, and it will only serve to exacerbate the federalism concerns identified in *Grable* by drawing more and more state law claims into federal court. As the three dissenting Texas Supreme Court justices noted in *Minton v. Gunn*, "the reach of the Federal Circuit's section 1338 reasoning is uncabined, and can potentially sweep any state law case that touches on substantive patent law (or, for that matter, the other areas of law covered by section 1338, such as copyright and trademarks) irrevocably into federal court." 355 S.W.3d at 653.

Today, we have missed an important opportunity to correct our case law and to acknowledge that our reading of *Christianson*, even if once arguably justified, can no longer be so.

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**AMICUS  
CURIAE  
BRIEF**

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IN THE  
**Supreme Court of the United States**

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JERRY W. GUNN, INDIVIDUALLY, WILLIAMS SQUIRE & WREN,  
L.L.P., JAMES E. WREN, INDIVIDUALLY, SLUSSER & FROST,  
L.L.P., WILLIAM C. SLUSSER, INDIVIDUALLY, SLUSSER, WILSON  
& PARTRIDGE, L.L.P., AND MICHAEL E. WILSON, INDIVIDUALLY,  
*Petitioners,*

v.

VERNON F. MINTON,  
*Respondent.*

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On Writ Of Certiorari to the  
Supreme Court of Texas

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**BRIEF OF AMICUS CURIAE AMERICAN  
INTELLECTUAL PROPERTY LAW ASSOCIATION IN  
SUPPORT OF PETITIONERS**

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**STATEMENT OF INTEREST  
OF *AMICUS CURIAE*<sup>1</sup>**

The American Intellectual Property Law Association ("AIPLA") is a national bar association of approximately 14,000 members engaged in private and corporate practice, in government service, and in the academic community. AIPLA represents a wide and diverse spectrum of individuals, companies and institutions involved directly or indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property. AIPLA members represent both owners and users of intellectual property, and could be affiliated with either plaintiffs or defendants in patent-related malpractice cases.

AIPLA has no interest in any of the parties to this litigation or in the outcome of this case. Its only

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<sup>1</sup> Pursuant to Supreme Court Rule 37.6, AIPLA certifies that no counsel for a party authored this brief in whole or in part, and that no person or entity, other than AIPLA, its members, or its counsel, has made any monetary contribution to the preparation or submission of this brief. After reasonable investigation, AIPLA believes that (i) no member of its Board or Amicus Committee who voted to file this brief, or any attorney in the law firm or corporation of such a member, represents a party to this litigation in this matter, (ii) no representative of any party to this litigation participated in the authorship of this brief, and (iii) no one other than AIPLA, or its members who authored this brief and their law firms or employers, made a monetary contribution to the preparation or submission of this brief. In accordance with Supreme Court Rule 37.3(a), counsel for petitioner and counsel for respondent have consented to the filing of this brief. The consents are submitted herewith.

interest here is in seeking correct and consistent interpretation of the law. In particular, AIPLA seeks to preserve the traditional balance between the state and federal courts.

## SUMMARY OF ARGUMENT

For more than two decades since this Court's decision in *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800 (1988), the Federal Circuit has been routinely finding federal jurisdiction over state-law claims that raise patent-law issues. The Federal Circuit has justified this departure from its prior practice based on its interpretation of *Christianson* as providing a "lenient standard" for jurisdiction. The Federal Circuit reads that decision as supporting the existence of jurisdiction any time a state-law claim makes it "necessary" to resolve a federal patent issue. But *Christianson* did nothing to alter this Court's longstanding precedent that, before a federal court may take jurisdiction over a state-law claim raising a federal issue, the issue must not only be "necessary," but must also be "disputed" and "substantial." *Shulthis v. McDougal*, 225 U.S. 561, 569 (1912). A "disputed" and "substantial" federal issue does not arise as part of a factual determination underlying a state-law claim; rather, it exists only where a claim creates a controversy as to a significant patent-law issue, such as a controversy regarding the validity, construction or effect of a patent statute or a principle of patent law, where a court decision would settle the issue and govern numerous future cases. The Federal Circuit's post-*Christianson* precedent conflates these discrete con-

siderations into a single question of whether any patent issue is “necessary” to the state-law claim.

Moreover, the Federal Circuit’s approach is inconsistent with this Court’s more recent decision in *Grable & Sons Metal Products, Inc. v. Darue Eng’g & Mfg.*, 545 U.S. 308 (2005), which clarified that an exercise of jurisdiction must also consider whether the state-law claim is one “which a federal forum may entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities.” *Id.* at 321. As support for its broad view of subject-matter jurisdiction, the Federal Circuit relies on Congress’ stated desire in creating the Federal Circuit to achieve patent-law uniformity. However, no evidence suggests that Congress intended the Federal Circuit to upset the balance of judicial responsibilities between the state and federal courts. On the contrary, Congress expressly based the Federal Circuit’s jurisdiction over patent cases on section 1338, preserving the pre-existing balance between state and federal court jurisdiction. Moreover, allowing state courts to **apply** the patent laws in particular cases does not undermine the uniformity of those laws.

Unless this Court overrules the Federal Circuit’s post-*Christianson* precedent, that precedent will continue to cause the district courts to exercise jurisdiction over various state-law claims merely because those claims raise a patent-law issue. This diminishes the right of litigants to select a forum based on the traditional well-pleaded complaint rule. Pursuant to this rule, the plaintiff is the “master of

its complaint” and may have the cause heard in state court by eschewing claims based on federal law. But under the Federal Circuit’s post-*Christianson* precedent, litigants whose interests involve patents are forced to litigate in federal court, and even local disputes involving local interests are necessarily swept into federal court simply because the disputes raise an issue relating to patent law.

## ARGUMENT

### I.

#### THE FEDERAL CIRCUIT INTERPRETS *CHRISTIANSON* AS PROVIDING A “LENIENT” STANDARD FOR FEDERAL JURISDICTION

##### A. The Federal Circuit’s Jurisprudence Before This Court Decided *Christianson*

In creating the Federal Circuit in 1982, Congress granted the court exclusive jurisdiction over any “appeal from a final decision of a district court of the United States . . . if the jurisdiction of that court was based in whole, or in part, on [28 U.S.C.] Section 1338 . . . .” 28 U.S.C. § 1295(a)(1) (1982). Section 1338, in turn, provides, in relevant part, that the “district courts shall have original jurisdiction of any civil action *arising under* an Act of Congress relating to patents . . . .” 28 U.S.C. § 1338(a) (emphasis added). The statute also provides that “[s]uch jurisdiction shall be exclusive of the courts of the states in patent . . . cases.” *Id.*

Thus, to determine its own jurisdiction, the Federal Circuit must decide whether the civil action on appeal arose under an Act of Congress relating to patents.

In *Christianson*, this Court held that the Federal Circuit lacked jurisdiction over the appeal of antitrust claims relying on federal patent law for one theory for recovery. 486 U.S. at 813. The Court concluded that patent law was not a necessary element of the well-pleaded antitrust claims. *Id.*

Before that 1988 decision, the Federal Circuit routinely declined to find "arising under" jurisdiction over various types of state-law claims that raised patent-law issues. *See, e.g., Ballard Med. Prods. v. Wright*, 823 F.2d 527, 530 (Fed. Cir. 1987) (no jurisdiction over breach of contract claim requiring determination of scope of licensed patent); *Schwarzkopf Dev. Corp. v. Ti-Coating, Inc.*, 800 F.2d 240, 243-44 (Fed. Cir. 1986) (no jurisdiction over suit for royalties due under a patent license contract); Joseph R. Re, *Federal Circuit Jurisdiction Over Appeals From District Court Patent Decisions*, 16 AIPLA Q.J. 169, 172-75 (1988) (virtually all of the Federal Circuit's pre-*Christianson* "arising under" cases found no section 1338 jurisdiction).

In the pre-*Christianson* cases, the Federal Circuit upheld the traditional balance of state and federal court jurisdiction by relying on *Excelsior Wooden Pipe Co. v. Pacific Bridge Co.*, 185 U.S. 282, 286 (1902), and *Pratt v. Paris Gas Light & Coke Co.*, 168 U.S. 255, 259 (1897), and required that the



patent laws create the cause of action or that the plaintiff "make it appear that some right or privilege will be defeated by one construction, or sustained by the opposite construction of those laws." *Excelsior*, 185 U.S. at 286; see, e.g., *Beghin-Say Int'l v. Ole-Bendt Rasmussen*, 733 F.2d 1568, 1570 (Fed. Cir. 1984) (citing *Excelsior*, 185 U.S. at 286).

In 1987, the Federal Circuit decided *Christianson*, an appeal that shuttled back and forth between the Seventh and Federal Circuits as those courts each determined that the other had appellate jurisdiction. In a detailed opinion written by the Federal Circuit's first Chief Judge, the court held that the antitrust claims, though raising patent issues, did not arise under the patent laws pursuant to section 1338. *Christianson v. Colt Indus. Operating Corp.*, 822 F.2d 1544, 1555-59 (Fed. Cir. 1987) (Markey, C.J.).

The Federal Circuit cited *Excelsior* and *Pratt*, and found jurisdiction lacking because the plaintiff had not asserted a right or privilege that would be impacted by a "construction of the patent laws." *Id.* at 1556. Chief Judge Markey observed that the Supreme Court "has consistently held that cases do not 'arise under' the patent laws merely because the case involves issues of a patent's validity and scope." *Id.* at 1554. While the Federal Circuit's holding normally would have divested it of jurisdiction, the court decided the case out of necessity and in the interest of justice, because it had already transferred the case to the Seventh Circuit only to see it return. *Id.* at 1559-60.



This Court granted review to resolve the circuit dispute, and agreed with the Federal Circuit that there was no “arising under” jurisdiction under section 1338.<sup>2</sup> The Court made the following observation:

In interpreting § 1338’s precursor, we held long ago that in order to demonstrate that a case is “arising under” federal patent law, “the plaintiff must set up some right, title or interest under the patent laws, or at least make it appear that some right or privilege will be defeated by one construction or sustained by the opposite construction of these laws.”

*Christianson*, 486 U.S. at 807-08 (quoting *Pratt*, 168 U.S. at 259). Citing its more recent precedent, the Court stated that section 1338 “arising under” jurisdiction is established only when a well-pleaded complaint demonstrates either that (1) federal patent law creates the cause of action or that (2) the plaintiff’s right to relief necessarily depends on resolution of a substantial question of federal patent law. *Id.* at 809.

Specifically addressing the facts of the *Christianson* case, the Court observed that “the

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<sup>2</sup> While this Court agreed with the Federal Circuit, it declined to endorse the Federal Circuit’s “interest of justice” rationale for deciding the case on the merits. Instead, this Court vacated the Federal Circuit ruling with instructions to transfer the appeal to the Seventh Circuit as it did initially. *Christianson*, 486 U.S. at 818-19.

dispute center[ed] around whether patent law [was] a *necessary* element of one of the well-pleaded [antitrust] claims.” *Id.* (emphasis added). The Court focused on the “necessary” requirement of the second prong, explaining that jurisdiction exists only if:

the plaintiff’s right to relief *necessarily* depends on resolution of a substantial question of federal patent law, in that patent law is a *necessary* element of one of the well-pleaded claims.

*Id.* (emphasis added).

Because the plaintiff could have succeeded on its antitrust claims without relying on a patent-law theory, the Court held that there was no section 1338 jurisdiction. *Id.* at 810-11. Thus, the *Christianson* Court never reached any of the other jurisdictional requirements set forth in this Court’s precedent, including the requirement that the patent-law issue be substantial. *See Grable*, 545 U.S. at 313 (“It has in fact become a constant refrain [in the Court’s precedent] that federal jurisdiction demands not only a contested federal issue, but a substantial one”).

#### B. The Federal Circuit’s Interpretation of *Christianson*

In a series of cases spanning two decades, the Federal Circuit has relied on the statement from *Christianson* quoted above as creating a lenient test readily establishing jurisdiction merely because “pat-

ent law is a necessary element of one of the well-pleaded claims,” *Christianson*, 486 U.S. at 809.

For example, in 1993, in its first major “arising under” decision applying *Christianson*, the Federal Circuit held that exclusive federal jurisdiction existed over a state-law “business disparagement” claim because the plaintiff had to prove the falsity of the defendant’s statement that plaintiff’s product infringed a patent. *Additive Controls & Measurement Sys. v. Flowdata, Inc.*, 986 F.2d 476, 478 (Fed. Cir. 1993). In finding federal jurisdiction over this traditional state-law tort claim, the Federal Circuit provided no separate analysis of whether the necessary patent-law issue was “substantial.” Instead, the Federal Circuit applied *Christianson*’s “necessary” requirement alone, concluding that the question of patent law was therefore “substantial”:

Adcon’s complaint . . . gives the district court jurisdiction under the second prong of the *Christianson* test. In sum, Adcon’s “right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of [its business disparagement claim.]” See *Christianson*, 486 U.S. at 809.

*Additive Controls*, 986 F.2d at 478. Thus, the court concluded that the existence of a necessary patent-law issue in and of itself made the issue “substantial” and established exclusive federal jurisdiction.

Five years later, the Federal Circuit similarly held that exclusive federal jurisdiction existed over a state-law claim for “injurious falsehood” because the plaintiff had to prove the invalidity or unenforceability of a patent to establish the falsity of the statements at issue. *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1328-29 (Fed. Cir. 1998). The Federal Circuit held that “questions of federal patent law—validity, and enforceability—are ‘substantial’ enough to convey section 1338(a) jurisdiction.” *Id.* at 1329. The court pointed to the existence of a remedy in patent law, and Congressional intent in creating the Federal Circuit, to conclude that any issue “essential to the federally created property right” is necessarily “substantial.” *Id.* at 1330.

Two years later, the Federal Circuit extended its view of federal jurisdiction to find that certain state-law contract claims also belong exclusively in federal court. *U.S. Valves, Inc. v. Dray*, 212 F.3d 1368, 1372 (Fed. Cir. 2000). It held that jurisdiction existed over a breach-of-contract claim where proving the alleged breach required the plaintiff to prove that the defendant sold products covered by the plaintiff’s licensed patents. *Id.* The Federal Circuit cited *Additive Controls* and *Hunter Douglas*, and again quoted *Christianson*’s application of the “necessary” requirement to hold that jurisdiction was established because “patent law [was] a necessary element of U.S. Valves’ breach of contract action.” *U.S. Valves*, 212 F.3d at 1372. The Federal Circuit stated that “*Christianson* sets a *lenient standard* for

jurisdiction under 28 U.S.C. § 1338(a).” *Id.* (emphasis added).

In 2002, the Federal Circuit found exclusive federal jurisdiction over a contract claim seeking rights to an invention. *Univ. of W. Va. v. Van-Voorhies*, 278 F.3d 1288, 1295 (Fed. Cir. 2002). The court reasoned that, because the trial court would have to determine if a patent application was a “continuation-in-part” of another patent application in order to decide whether the invention fell under a contract to assign, the claim arose under the patent laws. *Id.* The Federal Circuit again relied on *Christianson*’s statement of the “necessary” requirement to hold that jurisdiction was established because the right to relief necessarily depended on the resolution of an issue of patent law. *Id.*

Thus, throughout the period after *Christianson* and before *Grable*, the Federal Circuit held that any state-law claim that contained a patent-law issue as a “necessary” element automatically raised a “substantial” federal issue and thus was within the scope of section 1338. Even though *Christianson* found no “arising under” jurisdiction in a case that included several patent issues, the Federal Circuit interpreted language in that decision as creating a broad and “lenient” standard for establishing such jurisdiction whenever patent law is considered necessary in resolving the state-law claim.

As the dissenters in the present case correctly observed, such reasoning “is uncabined, and can



potentially sweep any state-law case that touches on substantive patent law (or, for that matter, the other areas of law covered by section 1338, such as copyright and trademarks) irrevocably into federal court.” *Minton v. Gunn*, 355 S.W.3d 634, 653 (Tex. 2011) (Guzman, J., dissenting). Indeed, by 2002, the Federal Circuit had already exercised jurisdiction over a wide variety of state-law claims. Malpractice, as presented in this case, is simply the latest type of state-law claim to be subject to the Federal Circuit’s interpretation of *Christianson*.

## II.

### **THE FEDERAL CIRCUIT HAS CONTINUED ITS VIEW OF *CHRISTIANSON* AS PROVIDING A LENIENT STANDARD, EVEN AFTER *GRABLE***

In *Grable*, this Court decided there was federal subject matter jurisdiction over a state action to quiet title which required an interpretation of a notice statute under the federal tax laws. In explaining its decision, the *Grable* Court clarified that the relevant “question is, does a state-law claim necessarily raise a stated federal issue, actually disputed and substantial, which a federal forum may entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities.” 545 U.S. at 314.

Notwithstanding this clarification, two years later, the Federal Circuit found federal jurisdiction over an attorney malpractice claim because the claim



required the plaintiff to prove that it would have won a previously adjudicated patent case but for the alleged malpractice. *Air Measurement Techs., Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 504 F.3d 1262, 1269 (Fed. Cir. 2007). The Federal Circuit applied its pre-*Grable* decisions in *Additive Controls* and *Hunter Douglas*, and again conflated the necessary and substantial requirements, holding that the patent infringement issue was “substantial, for it [was] a necessary element of the malpractice case.” *Id.* at 1272. The Federal Circuit also held that the patent infringement issue was “disputed” because there was no concession that the defendants in the underlying litigation had infringed the patents. *Id.* Concluding that the federalism concern in *Grable* was “not new” and that the decision did not change the law under section 1338, *id.* at 1271, the Federal Circuit also found that jurisdiction was supported by the “strong federal interest in the adjudication of patent . . . claims” in federal court, *id.* at 1272.

The same day it decided *Air Measurement*, the Federal Circuit also decided *Immunocept, LLC v. Fulbright & Jaworski*, 504 F.3d 1281, 1285 (Fed. Cir. 2007). There, the Federal Circuit asserted jurisdiction over an attorney malpractice action alleging that the lawyers made a claim-drafting error in a patent application. The court invoked its decisions in *Additive Controls*, *Hunter Douglas*, *U.S. Valves*, and *VanVoorhies*, and held that jurisdiction existed because the plaintiff could not succeed on its claim “without addressing claim scope.” *Id.* The opinion provided little discussion of *Grable*, stating that

*Grable* merely “rephrased” the *Christianson* test. *Id.* at 1284.

In 2012, the Federal Circuit denied a petition for rehearing en banc challenging its precedent finding federal jurisdiction over attorney malpractice actions. See *Byrne v. Wood, Herron & Evans, LLP*, 676 F.3d 1024 (Fed. Cir. 2012) (per curiam). In a concurring opinion, three judges repeatedly invoked *Christianson* as justifying the Federal Circuit’s broad assertion of jurisdiction:

Under the Supreme Court’s decision in *Christianson*, federal jurisdiction under 28 U.S.C. § 1338 exists if “the plaintiff’s right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims.” . . . The existence of [patent-law issues] ***necessarily makes*** the issues “substantial” within the meaning of *Christianson* and indicates a “serious federal interest” in federal adjudication within the meaning of *Grable*.

*Id.* at 1025-26 (Dyk, J., concurring) (internal citations omitted) (emphasis added). In a detailed dissent, Judge O’Malley, joined by Judge Wallach, disagreed, observing:

This court has justified expanding the reach of our jurisdiction to cover state law malpractice claims by reading *Christianson*

to authorize our doing so. Specifically our case law concludes that, whenever a patent law issue is raised in the context of a state law claim and must be resolved in the course of that otherwise state law inquiry, federal jurisdiction will lie, as will exclusive appellate jurisdiction in this court. That reading of *Christianson* is wrong, however. Supreme Court precedent permits federal courts to exercise federal question jurisdiction over state law claims *only* in the rare case where a federal issue is “actually disputed and substantial,” and where doing so will not upset “any congressionally approved balance of federal and state judicial responsibilities.”

*Id.* at 1027 (O’Malley, J., dissenting) (emphasis in original). The dissenters pointed out that the Federal Circuit’s approach is inconsistent with, for example, this Court’s holding in *Merrell Dow Pharmaceuticals, Inc. v. Thompson*, 478 U.S. 804, 813 (1986), that “the mere presence of a federal issue in a state cause of action does not automatically confer federal-question jurisdiction.” *See Byrne*, 676 F.3d at 1027. They also observed that “Federal Circuit case law on this issue has been out of step with that of other federal and state courts.” *Id.* at 1033.<sup>3</sup>

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<sup>3</sup> Outside the patent area, federal courts routinely hold that attorney malpractice cases belong in state court even though they require resolution of a federal issue. *See, e.g., Singh v. Duane Morris LLP*, 538 F.3d 334 (5th Cir. 2008) (federal trademark law); *Steele v. Salb*, 681 F. Supp. 2d 34 (D.D.C. 2010)

The Federal Circuit's recent decision not to reconsider its precedent *en banc* shows the court will continue its view of *Christianson* as providing a lenient standard for jurisdiction, despite *Grable*. As a result, absent correction by this Court, the lower courts, and even the state courts, as in the present case, will undoubtedly keep following the Federal Circuit's precedent to find that various state-law claims arise under the patent laws merely because they raise a patent-related issue.

### III.

#### **FEDERAL JURISDICTION REQUIRES A NECESSARY, DISPUTED AND SUBSTANTIAL QUESTION OF PATENT LAW, THE RESOLUTION OF WHICH WOULD NOT DISRUPT THE BALANCE OF STATE AND FEDERAL COURT RESPONSIBILITIES**

This case presents the Court with an opportunity to address the Federal Circuit's conclusion that *Christianson* provides a "lenient" standard for jurisdiction, and to clarify the Federal Circuit's jurisdiction in a manner consistent with this Court's more recent pronouncements in *Grable*. Indeed, as this Court recognized in *Grable*, "arising under" jurisdiction under section 1338 lies only where a

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(Title VII employment discrimination action); *Daido Metal Bellefontaine, LLC v. Mason Law Firm Co.*, 2010 WL 2541636 (S.D. Ohio 2010) (Labor Management Relations Act); *Anderson, Inc. v. Johnson*, 2009 WL 2244622 (N.D. Ill. 2009) (copyright infringement).

well-pleaded complaint establishes the existence of a necessary, disputed and substantial question of federal patent law, the resolution of which by a federal court would not disrupt the balance of state and federal court responsibilities. 545 U.S. at 308.

#### A. "Necessary"

This Court explained the "necessary" requirement in *Christianson*. Under *Christianson*, "the plaintiff's right to relief [must] necessarily depend[] on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims." 486 U.S. at 809. Thus, jurisdiction is not established where a claim is supported by alternative theories "unless patent law is essential to each of those theories." *Id.* at 810.

This Court's "necessary" requirement limits the scope of federal jurisdiction under section 1338 to claims that must invoke federal law. Contrary to the Federal Circuit's approach, however, the existence of a single "necessary" patent-law issue does not, in and of itself, establish jurisdiction under section 1338. As discussed below, the issue must also be disputed and substantial, and the resolution of the issue must not disrupt the balance of federal and state court responsibilities.

#### B. "Disputed"

In *Grable*, this Court explained the requirement that a federal issue must "actually be in



dispute to justify federal-question jurisdiction.” *Grable*, 545 U.S. at 315 n.3. The *Grable* decision pointed to *Shulthis* as a case where “there was no jurisdiction to hear a plaintiff’s [state-law] claim in part because the federal statutes on which [the claim] depended were not subject to ‘any controversy respecting their validity, construction or effect.’” *Id.* (quoting *Shulthis*, 225 U.S. at 570). Thus, under *Grable*, a “controversy” as to the “validity, construction or effect” of a statute would constitute a “disputed” issue. *Grable*, 545 U.S. at 315 n.3.

Most state-law claims with embedded patent-law issues will not raise a “disputed” question of patent law under *Grable*, i.e., a “controversy” regarding the “validity, construction or effect” of a patent statute. For example, the patent issue in this case is whether a particular use of a later-patented invention was experimental or commercial in nature. This fact-based issue does not raise any controversy regarding the “validity, construction or effect” of an “Act of Congress relating to patents,” 28 U.S.C. § 1338(a). As the dissenters in the present case observed, “the experimental use exception is well-established in meaning and scope” and is not in dispute. *Minton*, 355 S.W.3d at 650 (Guzman, J., dissenting).<sup>4</sup>

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<sup>4</sup> The requirements that an issue be “disputed” and “substantial” admittedly overlap in that, together, these requirements ensure that there is a “dispute” regarding a “substantial” issue of federal law. Nonetheless, it is helpful to distinguish these requirements to ensure that there is a true “controversy” regarding federal law, and not merely a disagreement between



### C. “Substantial”

“Substantial” means just that. A “substantial” federal question requires a significant question of law, whose resolution will settle the federal question once and for all and govern numerous future cases. See *Empire Healthchoice Assurance, Inc. v. McVeigh*, 547 U.S. 677, 700 (2006); *Grable*, 545 U.S. at 313. As this Court has recognized, federal jurisdiction only arises where the patent-law issue is, not only necessary and disputed, but also “substantial.” *Grable*, 545 U.S. at 313. An analysis of this Court’s decisions in *Empire* and *Grable* provides helpful guidance regarding the “substantiality” requirement.

In *Grable*, the issue was the interpretation of the notice statute in the federal tax law, and the Court held that there was jurisdiction because the meaning of the federal tax provision “is an important issue of federal law,” 545 U.S. at 315. As this Court later explained in *Empire*, the issue in *Grable* was a “pure issue of law,” one “that could be settled once and for all and thereafter would govern numerous” cases, and thus was substantial. *Empire*, 547 U.S. at 700 (discussing *Grable*, 545 U.S. at 313). In contrast, in *Empire*, the issue was an insurer’s recovery of amounts paid to an insured as a result of the settlement of a personal-injury action. The issue was “fact-bound and situation-specific,” not substantial. *Empire*, 547 U.S. at 701.

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the parties regarding the application of the law to the specific facts of the case.

In the instant case, as with many other state-law cases, the court must determine an issue involving an application of patent law as part of resolving the state-law claim. Under this Court's analysis in *Grable* and *Empire*, federal jurisdiction is improper here. Whether a particular use of a later-patented invention was experimental or commercial in nature is not an issue of patent law establishing federal jurisdiction over a state-law claim. Rather, the exercise of federal jurisdiction would only be appropriate if the case raised significant issues of patent law, i.e., issues relating to the validity, construction or effect of the patent laws, whose resolution would settle a significant question of patent law and govern future cases. See *Excelsior*, 185 U.S. at 286 (requiring some right or privilege that "will be defeated by one construction or sustained by the opposite construction of th[e] [patent] laws"); *Pratt*, 168 U.S. at 259 (same); see also *Empire*, 547 U.S. at 701 ("[I]t is hardly apparent why . . . a nonstatutory issue" should be placed "under the complete governance of federal law, to be declared in a federal forum."); *Grable*, 545 U.S. at 314 (a "federal issue" is not a "password opening federal courts to any state action embracing a point of federal law"); *Merrell Dow*, 478 U.S. at 813 (declining jurisdiction based on "the mere presence of a federal issue in a state cause of action").

Overruling the Federal Circuit's cases applying a lenient jurisdictional standard would restore the proper state-federal balance of judicial responsibilities. Under this Court's precedent, state courts would rarely lose jurisdiction, because in most cases

they simply would be applying, not defining or re-defining, patent law. Many patent-law issues, such as infringement, are fact-bound and situation-specific. As *Empire* recognized, such non-precedential determinations do not create federal jurisdiction. 547 U.S. at 700-01. Even patent-law issues that are considered questions of law, such as claim construction, will rarely involve interpreting the meaning of a statute or formulating or reformulating a principle of patent law. Instead, such cases will simply apply this Court's and the Federal Circuit's well-established body of precedent to the specific circumstances of the case.

The Federal Circuit view that any patent issue is necessarily a "substantial" federal issue is based, in part, on Congress's expressed desire for patent-law uniformity. *Hunter Douglas*, 153 F.3d at 1330-31. But when it created the court, "Congress was not concerned that an occasional patent-law decision of a regional circuit court, or of a state court, would defeat its goal of increased uniformity in the national law of patents." *Atari, Inc. v. JS & A Group, Inc.*, 747 F.2d 1422, 1432 (Fed. Cir. 1984) (Markey, C.J.). In seeking greater uniformity among the federal courts only, and incorporating section 1338 into the Federal Circuit's jurisdictional statute, 28 U.S.C. § 1295(a)(1), Congress expressed no desire to divest state courts of any cause of action involving the application of patent laws.

#### D. Federalism Considerations

Finally, even if the patent-law issue is necessary, disputed and substantial, any exercise of jurisdiction must also be consistent with the federalism concerns identified in *Grable*. These concerns require a court to consider whether a state-law claim is one "which a federal forum may entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities." 545 U.S. at 314. Exercising jurisdiction over the types of claims at issue in *Grable* would have had "only a microscopic effect on the federal-state division of labor" because such claims were "rare." *Id.* at 315. In contrast, as discussed above, the Federal Circuit has already exercised jurisdiction over many types of state-law claims, including, most recently, malpractice claims. This approach disrupts the balance of federal and state judicial responsibilities.

When it first found jurisdiction in a malpractice case, the Federal Circuit took the view that "Congress considered the federal-state division of labor and struck a balance in favor of this court's entertaining patent infringement." *Air Measurement*, 504 F.3d at 1272. In creating the Federal Circuit, however, Congress purposefully left intact the balance of power between the state and federal courts. Indeed, Congress expressly based the Federal Circuit's jurisdiction on section 1338, preserving the pre-existing balance between state and federal court jurisdiction. 28 U.S.C. § 1295(a)(1); see *Christianson*, 822 F.2d at 1553-43 (Congress "chose to adopt the existing arising under frame-

work" such that the Federal Circuit's jurisdiction would be evaluated "in the same sense that cases are said to arise under federal law for purposes of federal question jurisdiction") (quoting H.R.Rep. No. 312, 97th Cong., 1st Sess. 41).

In response to concerns that the Federal Circuit's appellate jurisdiction would be "dangerously broad," Congress pointed to the fact that the court's appellate jurisdiction would be tied to the district court's jurisdiction under section 1338:

[T]his argument does not recognize the obvious. The statutory language in question specifically requires that the district court have jurisdiction under 28 U.S.C. § 1338. This, standing alone, is a substantial requirement.

H.R.Rep. No. 312, 97th Cong., 1st Sess. 41. By basing the Federal Circuit's appellate jurisdiction on section 1338, Congress intended to avoid the very change in the division of labor the Federal Circuit has now attributed to Congress.

Moreover, the absence of any significant federal interest in having federal courts resolve most patent issues in state-law claims underscores the error of the Federal Circuit's approach. Such claims typically do not resolve or determine any patent rights or resolve any substantial questions of patent law. For example, there can be no federal interest in deciding hypothetical patent-law issues in federal court. Patent law seeks to balance the exclusive



rights held by a patent owner with the public's right to practice non-patented subject matter. See *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 165 (1989). But malpractice actions almost always address hypothetical issues, often involving non-existent patent rights and underlying substantive previous patent disputes that have already been resolved.

Indeed, contrary to the concern of the Supreme Court of Texas, the validity of the patent in this case is not even being questioned. In fact, the patent involved here has already been invalidated, ending any possible federal interest regarding the determination of rights in that patent. *Minton v. Nat'l Ass'n of Sec. Dealers, Inc.*, 336 F.3d 1373 (Fed. Cir. 2003). But that fact would not prevent the Federal Circuit from finding jurisdiction over the malpractice claim in this case. Indeed, the Federal Circuit has found jurisdiction over state-law claims involving theoretical patent rights, even rights in patents that have *never* existed. See *Davis v. Brouse McDowell, L.P.A.*, 596 F.3d 1355, 1361-62 (Fed. Cir. 2010) (finding jurisdiction over malpractice claim asserting that, but for missed patent-filing deadline, invention would have been patentable).

Similarly, there can be little, if any, federal interest in the resolution of insubstantial patent issues that arise during a contract dispute between two or more private parties. In such cases, the parties have often chosen to leave the realm of federal patent law and its statutory remedies, and to enter into a state-law controlled contractual relation-



ship. Nor can there be a strong federal interest in the truthfulness of statements made by private individuals regarding federal patent rights. Yet the Federal Circuit has repeatedly held that such tort and contract cases must be brought exclusively in federal court, if they raise necessary issues of patent law. See, e.g., *Additive Controls*, 986 F.2d at 478; *Hunter Douglas*, 153 F.3d at 1328-29; *U.S. Valves*, 212 F.3d at 1372; *Van Voorhies*, 278 F.3d at 1296-97.

Importantly, the Federal Circuit's post-*Christianson* precedent does not adequately consider the strong interests of states in, for example, resolving the contract disputes of their citizens, protecting those citizens from state-law torts and governing the conduct of the attorneys who are licensed by the state to practice law in the state. See *Byrne*, 676 F.3d at 1038 (O'Malley, J., dissenting) ("[S]tates undoubtedly have a strong interest and role in regulating the conduct of all of their respective attorneys, as well as in protecting all of their residents from negligent legal services."). This precedent unduly enlarges federal jurisdiction over patent-related state-law claims and should be corrected.

## IV.

**THE FEDERAL CIRCUIT'S POST-  
CHRISTIANSON PRECEDENT ALSO  
UNDERMINES THE RIGHT TO SELECT A  
FORUM BASED ON THE WELL-PLEADED  
COMPLAINT RULE**

Of particular interest to AIPLA is the impact of the Federal Circuit's overly broad assertion of jurisdiction on the right to select a forum based on the traditional well-pleaded complaint rule. As this Court has long recognized, the plaintiff is the "master of [its] complaint" and can have "the cause heard in state court" by "eschewing claims based on federal law." *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 831 (2002). As recognized by Justice Holmes nearly a century ago:

Of course, the party who brings a suit is master to decide what law he will rely upon, and therefore does determine whether he will bring a "suit arising under" the patent or other law of the United States by his declaration or bill.

*The Fair v. Kohler Die & Specialty Co.*, 228 U.S. 22, 25 (1913).

A lenient jurisdictional standard under section 1338 eviscerates this longstanding right by sweeping state-law claims into the exclusive jurisdiction of the federal courts simply because they require resolution of a patent-law issue. In recent years, the Federal

Circuit has held that an exclusive licensee suing for an unauthorized sale by the licensor must bring the straightforward breach-of-contract action in federal court. See *U.S. Valves*, 212 F.3d at 1372. It has also found jurisdiction over malpractice actions arising out of errors during patent prosecution and patent litigation, see *Air Measurement*, 504 F.3d at 1272, and jurisdiction over “injurious falsehood” actions where the alleged false statement happened to address the quality of a patent portfolio. See *Hunter Douglas*, 153 F.3d at 1328-29. Under the current Federal Circuit approach, even traditional state litigation involving probate or divorce may be placed within the exclusive jurisdiction of the federal courts, if it involves, for instance, patent royalties.

This Court should correct the Federal Circuit’s broad assertion of jurisdiction over traditional state-law claims after *Christianson*. As Judge O’Malley warned in *Byrne*, the Federal Circuit’s precedent “will only serve to exacerbate the federalism concerns identified in *Grable* by drawing more and more state law claims into federal court.” *Byrne*, 676 F.3d at 1040 (O’Malley, J., dissenting). This Court should heed that warning and hold that the present action is not within the exclusive jurisdiction of the federal courts under section 1338.

## CONCLUSION

The Court should overrule the Federal Circuit’s post-*Christianson* precedent applying a lenient jurisdictional standard under section 1338. Requiring that a patent-law issue be “necessary,”

“disputed” and “substantial” would restore the balance of state and federal judicial responsibilities that existed before the Federal Circuit’s incorrect interpretation of *Christianson*. Upholding these requirements would also restore the rights of litigants whose rights involve patents to select a forum based on the traditional well-pleaded complaint rule.

Respectfully submitted,

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26 November 2012

**AMICUS  
CURIAE  
BRIEF**

IN THE  
**Supreme Court of the United States**

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INDIVIDUALLY, SLUSSER & FROST, L.L.P., WILLIAM  
C. SLUSSER, INDIVIDUALLY, SLUSSER, WILSON  
& PARTRIDGE, L.L.P., AND MICHAEL E. WILSON,  
INDIVIDUALLY,

*Petitioners,*

*v.*

VERNON F. MINTON

*Respondent.*

---

ON WRIT OF CERTIORARI TO THE SUPREME COURT OF TEXAS

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**BRIEF OF THE INTELLECTUAL  
PROPERTY LAW ASSOCIATION OF  
CHICAGO AS *AMICUS CURIAE*  
SUPPORTING RESPONDENT**

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## INTEREST OF AMICUS CURIAE

Founded in 1884, the Intellectual Property Law Association of Chicago (IPLAC) is a voluntary bar association of over 1,000 members who work daily with patents, trademarks, copyrights, trade secrets, and the legal issues that such intellectual property presents.<sup>1</sup> IPLAC is the county's oldest bar association devoted exclusively to intellectual property matters. Its members include attorneys in private and corporate practice as well as government service, whose work routinely involves intellectual property rights. Many of its members are admitted to practice before the U.S. Patent and Trademark Office (USPTO) as well as state and federal bars throughout the United States. Its members and the businesses they serve are involved in literally every technical and scientific discipline existing today, *e.g.*, chemistry, electronics, computer hardware and software, biotechnology, green technology, nanotechnology, and many others.

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1. Consents to file this brief from the counsel of record for all parties are on file with the Clerk of the Court pursuant to Supreme Court Rule 37.3(a). This brief was not authored, in whole or in part, by counsel to a party, and no monetary contribution to the preparation or submission of this brief was made by any person or entity other than IPLAC or its counsel. After reasonable investigation, IPLAC believes that no member of its Board or Litigation or Amicus Committees who voted to prepare this brief on its behalf, or any attorney in the law firm or corporation of such a board or committee member, represents a party with respect to this litigation. Some committee members or attorneys in their respective law firms or corporations may represent entities that have an interest in other matters which may be affected by the outcome of this litigation.

Members of IPLAC routinely prepare and prosecute patent applications, litigate patent cases, and render legal opinions on patent issues in the litigation, prosecution and licensing areas. In the litigation context, IPLAC's members are split about equally between plaintiffs and defendants, with all of the aforementioned technologies routinely litigated.<sup>2</sup> Additionally, many of IPLAC's members work for law firms who employ patent agents. While the majority of IPLAC's members are attorneys, IPLAC's membership includes patent agents. Patent agents are non-attorneys who are nonetheless admitted to practice before the USPTO. Although the agents are not licensed attorneys, they are registered in the USPTO to represent patent applicants.

As part of its central objectives, IPLAC is dedicated to aiding in the development of the patent laws both in the PTO and in the courts. Accordingly, IPLAC has a vital interest in the issue presented by this case, which will have a substantial impact on the practice of patent law. The question before this Court is whether the federal courts have exclusive jurisdiction over cases asserting malpractice in matters that involve substantive patent issues. In IPLAC's view, the Federal Circuit jurisprudence at the center of this controversy correctly concluded that such cases are properly within the exclusive jurisdiction of the federal courts.

---

2. While over 80 federal judges are honorary members of IPLAC, none of them was consulted or participated in any way regarding this brief.

## SUMMARY OF ARGUMENT

IPLAC files this brief as *amicus curiae* to help the Court appreciate the implications of its decision and to explain why IPLAC believes that the exercise of subject matter jurisdiction over state malpractice claims involving substantial issues of patent law is most consistent with this Court's jurisprudence and with congressional intent for the exercise of jurisdiction under 28 U.S.C. § 1338(a).<sup>3</sup>

The Petitioners challenge the decision of the Supreme Court of Texas holding that the Texas state courts lacked jurisdiction over Minton's claim of malpractice in the conduct of patent litigation. The Texas Supreme Court relied upon two rulings of the Federal Circuit Court of Appeals: *Air Measurement Techs., Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 504 F.3d 1262 (Fed. Cir. 2007) and *Immunocept, L.L.C. v. Fulbright & Jaworski, L.L.P.*, 504 F.3d 1281 (Fed. Cir. 2007). *Air Measurement* involved a claim of malpractice in the conduct of patent prosecution before the USPTO and in patent litigation; *Immunocept* involved another claim of malpractice in the conduct of patent prosecution. In each case, the Federal Circuit found jurisdiction under 35 U.S.C. § 1338(a). Petitioners challenge the correctness of those rulings.

Malpractice actions can alter the future behavior of professionals. The federal government has important interests in the regulation of professional who engage in patent law. Empowered by the U.S. Constitution to establish a national patent system, Congress created the

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3. IPLAC takes no position on whether or not the alleged actions of Petitioners give rise to viable legal malpractice claims.



USPTO to examine patents. Congress authorized the USPTO to regulate the “conduct of agents, attorneys, or other persons representing applicants or other parties” before it 35 U.S.C. § 2(b)(2)(D). An attorney-at-law or other person wishing to practice before the USPTO must meet various requirements and be registered to USPTO practice. 37 C.F.R. § 11.7. Their conduct is governed by USPTO regulations patterned after the ABA Code of Professional Responsibility. *See* 37 C.F.R. § 10.1 *et seq.* This Court has previously barred state action that would interfere with the ability of a person registered in the USPTO to practice before that body. *See Sperry v. Florida ex rel. Florida Bar*, 373 U.S. 379 (1963).

Further, Congress gave the federal courts exclusive jurisdiction to hear patent cases. The attorneys who represent parties in these cases need not be admitted to practice before the USPTO, though many are. For this reason, federal courts have an interest, exclusive of the state courts, regarding the conduct of attorneys who appear before them in patent cases.

In our federal system, state courts are regarded as courts of general jurisdiction while federal courts have judicial power which is limited to those cases enumerated in Article III, § 2 of the U.S. Constitution. In *Grable & Metal Prod., Inc. v. Darue Eng'g. & Mfg.*, 545 U.S. 308 (2005), this Court addressed the standard to be applied for determining whether a district court has subject matter jurisdiction under the federal question statute, 28 U.S.C. § 1331. That statute generally provides district courts with original jurisdiction over civil actions “arising under the Constitution, laws, or treaties of the United States,” commonly referred to as “arising under” jurisdiction.



This Court has likewise referred to subject matter jurisdiction under 28 U.S.C. § 1338(a) as “arising under” jurisdiction. That statute provides district courts with original jurisdiction over “any civil action arising under any Act of Congress relating to patents.” This Court stated in *Christianson v. Colt Indus. Op. Corp.*, 486 U. S. 800, 808 (1988), that “[l]inguistic consistency” required the same test be used to determine whether a case arises under § 1338(a) as under § 1331.

The Federal Circuit in *Air Measurement and Immunocept* properly applied the test of “arising under” jurisdiction articulated by *Grable* in finding subject matter jurisdiction over a claim of malpractice in the USPTO or in handling federal patent litigation. In particular, these cases considered the requirement that the patent law issues be necessary to the claim, actually disputed and substantial, and that the assertion of federal jurisdiction not be contrary to any allocation of state and federal judicial authority assumed or prescribed by Congress.

Nonetheless, § 1338(a) differs from § 1331 in that the jurisdiction is not only granted, but is exclusive. The need for a clear jurisdictional rule thus becomes critical, lest a plaintiff learn too late that the court in which the matter is filed cannot render relief. Where jurisdiction is concurrent and a borderline case of jurisdiction under § 1331 is presented, a plaintiff can assure its case will be heard by bringing the case initially in state court, albeit with the prospect of removal; where jurisdiction under § 1338(a) presents a close call, the case may proceed for years through trial only to be reversed when the appellate court determines the trial court lacked jurisdiction, after which it may be too late to initiate a new action.

Much of the uncertainty under the *Grable* test arises from the element that asks whether the patent law issue embedded in the state law claim is "substantial." Yet congressional intent regarding adjudication of the patent laws, particularly as evidenced by the legislative histories of the Federal Courts Improvement Act of 1982 and the America Invents Act, indicates that all patent law issues, excluding only those that are immaterial, inferential or frivolous, should be deemed "substantial" when applying the *Grable* test.

Further, upholding federal subject matter jurisdiction over state law claims with embedded patent law issues is entirely consistent with the division of labor between state and federal courts envisioned by Congress, particularly when the amendments to the jurisdictional statutes implemented in the AIA are considered.

This clear line will not, as some have suggested, subject the federal courts to a flood of additional cases. An examination of published statistics shows that allowing patent malpractice cases into the federal courts would add less than 0.1% to the federal court dockets. Accordingly, upholding jurisdiction would not overburden the federal courts.

## ARGUMENT

### I. Petitioners' Challenge to the Federal Circuit's Decisions in *Air Measurement* and *Immunocept* Has Broad Implications for the Federal Practice of Patent Law

#### A. Petitioners Seek to Overturn the Federal Circuit Decisions in *Air Measurement* and *Immunocept*.

The Petitioners are attorneys who were sued in the Texas state courts for legal malpractice. Respondent alleged malpractice in their conduct of patent litigation before a federal district court. While represented by Petitioners, Respondent lost a patent infringement case in which the federal district court, upon summary judgment, held that Respondent's patent was invalid under 35 U.S.C. § 102(b), based on the existence of an on-sale bar. *See, e.g., Pfaff v. Wells*, 525 U.S. 55 (1998). Respondent claims that Petitioners failed to argue that the sale found to constitute the bar was in fact a permitted experimental use, and that this failure constitutes malpractice.

This Court granted certiorari to review the decision of the Supreme Court of Texas that the state court lacked jurisdiction over Respondent's claim of patent litigation malpractice. The Texas Supreme Court relied upon two rulings of the Federal Circuit Court of Appeals: *Air Measurement Techs., Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 504 F.3d 1262 (Fed. Cir. 2007) and *Immunocept, L.L.C. v. Fulbright & Jaworski, L.L.P.*, 504 F.3d 1281 (Fed. Cir. 2007). *Air Measurement* involved a claim of malpractice in the conduct of patent prosecution

before the USPTO and in patent litigation; *Immunocept* involved another claim of malpractice in the conduct of patent prosecution. In each case, the Federal Circuit held that there was exclusive federal court jurisdiction under 28 U.S.C. § 1338(a).

Petitioners directly attack the Federal Circuit's holdings in *Air Measurement* and *Immunocept*, arguing that the Federal Circuit failed to apply properly the standards articulated by this Court in *Grable & Sons Metal Prod., Inc. v. Darue Eng'g. & Mfg.*, 545 U.S. 308, 312 (2005), for determining whether a state law claim with an embedded patent law issue is a civil action "arising under" the patent laws for purposes of jurisdiction under 38 U.S.C. § 1338(a). Petitioners' Brief i, 33 *et seq.*

In addressing this issue, this Court should be aware not only of the important federal interests at stake, but of the broad range of patent activities that any decision may affect.

**B. The Federal Government Has Unique and Important Interests in the Regulation of the Patent Practice Implicated in Patent Malpractice Actions.**

Federal authority over patent law is embedded in the U.S. Constitution and reflected in numerous Congressional determinations. Article I, § 8, clause 8 of the U.S. Constitution specifically provides Congress with the power to establish a national patent system to "promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and

Discoveries." In 1790, Congress passed the first patent statute. Act of Apr. 10, 1790, ch. 7, 1 Stat. 109. In 1836, Congress created a patent office to examine applications for patents. Act of July 4, 1836, ch. 357, § 6, 5 Stat. 117. Today, no one doubts that patents play an important, albeit at times controversial, role in our national economy.

Congress has authorized the USPTO not only to examine and grant patents, but to regulate the "conduct of agents, attorneys, or other persons representing applicants or other parties" before it under authority provided by 35 U.S.C. § 2(b)(2)(D). *See generally, Sperry v. Florida ex rel. Florida Bar*, 373 U.S. 379 (1963). Pursuant to USPTO regulations, an attorney-at-law or other person wishing to practice before the USPTO must first meet certain academic qualifications, such as having a degree in a scientific or engineering discipline. 37 C.F.R. § 11.7. Generally, they must pass an examination and be registered to practice before the USPTO. *Id.* Patent agents, who are not attorneys-at-law, and patent attorneys have the same authority to prosecute patents on behalf of applicants within the USPTO. 37 C.F.R. § 11.6. The conduct of each is governed by USPTO regulations patterned after the American Bar Association Code of Professional Responsibility. *See* 37 C.F.R. § 10.1 *et seq.* The USPTO also has implemented rules for investigating and disciplining persons who practice before it. *See* 37 C.F.R. § 11.19 *et seq.* Decisions on such discipline are reviewed in federal court. 35 U.S.C. § 32.

In federal Court, parties may be represented in patent litigation within the federal courts is permitted by any attorney admitted to practice in that court. The attorneys need not be admitted to practice before the USPTO,



though many are. Nonetheless, here too the conduct of these proceedings are of specific federal interest. In particular, unlike most areas of federal law, jurisdiction to hear patent cases is exclusive of the state courts. 28 U.S.C. § 1338(a). Accordingly, the federal courts, exclusive of the state courts, have a specific interest in regulating the conduct of the attorneys who practice before them in patent actions.

A malpractice action can influence the conduct of attorneys who practice in a specialized field. For example, a malpractice action could determine that an attorney in federal patent litigation has a duty to undertake certain activities or raise certain arguments before the federal court, over matters of exclusively federal patent law. It would be unusual for the states to regulate the conduct of attorneys in exclusively federal actions, in the same way that it would make little sense for a state to regulate the conduct of representatives before the USPTO. Yet, that is Petitioners' argument in this matter.

### **C. Patent Practice Covers a Broad Range of Interrelated and Exclusively Federal Activities**

While the malpractice alleged in this case arose in the context of litigation, issues of statutory "on sale" bars and experimental use also arise in conducting patent prosecution before the USPTO and in other areas of patent practice. *See, e.g., In re Caveney*, 761 F.2d 671 (Fed. Cir. 1985) (rejection of patent application claims by USPTO affirmed). Similar malpractice claims could be envisioned arising out of alleged negligence in those matters.



Indeed, patent law practice covers a wide variety of legal areas. These include:

- Patent prosecution — the preparation and filing of patent applications in which practitioners must ensure that the applications comply with the patent statutes, 35 U.S.C. §101, *et seq.*, the regulations issued by the USPTO directed to the prosecution process, 37 C.F.R., Chapter I, and the procedures and other matters set forth by the USPTO in its Manual of Patent Examining Procedures.<sup>4</sup>
- Administrative trials in the USPTO — this includes the preparation of *ex parte* reexamination petitions, the former conduct of *inter partes* reexaminations and the conduct of post-grant reviews and *inter partes* reviews that became available on September 16, 2012, under the America Invents Act.
- Patent litigation in the courts — the enforcement or defense of patent infringement charges. These cases typically involve patent claim construction (an issue of law); infringement assessments based on the construed claims; validity determinations relating to, among other things, patentable subject matter, anticipation, obviousness, enablement, and written description, each of which is ultimately a question of law; application of the first sale and experimental use doctrines; and inequitable conduct.

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4. The Manual of Patent Examining Procedures is a 1,500 + page manual prepared by the USPTO that sets out its understanding of the patent statutes and how practitioners prepare and prosecute patent applications in line with the statutes and the rules of the USPTO. See <http://www.uspto.gov/web/offices/pac/mpep/index.html>.

- Patent opinions — the preparation of legal opinions that address a person's freedom to make, use, sell or import a device or to practice a method in light of existing patents (commonly referred to as a Freedom to Operate opinion); the review of the prosecution history of a patent and preparation of an assessment of the meaning of the patent's claims; the analysis of a device or method and a comparison to the construed claims of a patent for purposes of determining whether there is a reasonable likelihood of infringement; the review of prior art and a comparison of that prior art to the construed claims of a patent to determine whether the claims might be deemed invalid; and the investigation of possible issues of inequitable conduct occurring during the prosecution of the patent. *See, e.g., In re Seagate*, 497 F.3d 1860, 1366 (Fed. Cir. 2007) (subjects of several example opinions described).

Because the same issues commonly arise in patent litigation, in trials before the USPTO, during prosecution of a patent application or in other contexts, a malpractice claim regarding conduct in patent litigation risks affecting the conduct of patent agents and patent attorneys in other patent law activities, including those before the USPTO and in other patent litigation within the various federal courts.

## **II. The Federal Circuit Properly Held that Claims of Malpractice in the Practice of Patent Litigation Are Within the Exclusive Jurisdiction of the Federal Courts Under a Proper Application of the *Grable* Standards.**

This Court has long-recognized that an action may be one “arising under” a federal law even though the cause of action asserted is created by state law and not federal law. The Court has characterized this as that “longstanding, if less frequently encountered, variety of federal ‘arising under’ jurisdiction, ... [where] federal-question jurisdiction will lie over state-law claims that implicate significant federal issues.” *Grable*, 545 U.S. at 312.

The doctrine captures the commonsense notion that a federal court ought to be able to hear claims recognized under state law that nonetheless turn on substantial questions of federal law, and thus justify resort to the experience, solicitude, and hope of uniformity that a federal forum offers on federal issues.

*Id.*

### **A. This Court Has Construed the “Arising Under” Jurisdiction In 28 U.S.C. § 1338(a) in the Same Way as the “Arising Under” Jurisdiction In 28 U.S.C. § 1331.**

This Court most recently addressed the scope of federal jurisdiction under 28 U.S.C. § 1338(a) in the context of resolving a jurisdictional dispute between two

federal Courts of Appeals, the Seventh Circuit and the Federal Circuit. See *Christianson v. Colt Ind. Op. Corp.*, 486 U.S. 800 (1988). Each court believed the other had appellate jurisdiction over a federal antitrust claim which alleged, *inter alia*, that defendant Colt had maintained a monopoly by obtaining patents that were presumptively valid but were in fact invalid based upon Colt's wrongful retention of proprietary information. *Id.* at 805-06. The question turned on whether the district court had jurisdiction under § 1338.

In *Christianson*, this Court held that "arising under" jurisdiction was construed the same in § 1338(a) as in other federal jurisdictional statutes using that language. It observed that cases construing the identical "arising under" language in the general federal question statute, 28 U.S.C. § 1331, "quite naturally applied the same test." *Christianson*, 486 U.S. at 808. "Linguistic consistency, to which we have historically adhered, demands that § 1338(a) jurisdiction likewise extend only to those cases in which a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims." *Id.* at 809.

The decision in *Christianson* turned on the requirement that the patent law issue must be a necessary element of one of the well-pleaded claims. It observed that long ago, in interpreting the predecessor to § 1338, the Court held that for a case to be one "arising under" the patent laws "the plaintiff must set up some right, title or interest under the patent laws, or at least make

it appear that some right or privilege will be defeated by one construction, or sustained by the opposite construction of these laws." *Christianson*, 486 U.S. at 807–08 The Court held that plaintiff's antitrust claims did not arise under the patent laws because the patent laws provided just one theory of recovery for each claim, but was not necessary to the overall success of either claim. *Id.* at 810. For this reason, the *Christianson* Court did not discuss whether the federal patent law question presented was "substantial."

**B. The *Grable* Standard for Federal Question Jurisdiction Where State Claims Turn on Embedded Questions of Federal Law Provides Proper Guidance**

*Grable* considered whether the federal courts had jurisdiction over a state quiet title action in which Grable claimed that it had superior title to a parcel of land that was seized and sold by the U.S. Internal Revenue Service to satisfy a tax liability. Grable claimed the IRS notice of the sale was not properly served as required by federal law. The Court found jurisdiction, holding: "the national interest in providing a federal forum for federal tax litigation is sufficiently substantial to support the exercise of federal-question jurisdiction over the disputed issue on removal, which would not distort any division of labor between the state and federal courts, provided or assumed by Congress." *Grable*, 545 U.S. at 310.

While disclaiming any effort to articulate "'a single, precise, all-embracing' test for jurisdiction over federal issues embedded in state-law claims between non-diverse parties," the decision in *Grable* strived to do exactly that.



First, the Court ruled that the mere need to apply federal law is not itself sufficient. *Grable*, 545 U.S. at 313. Beyond that, “federal jurisdiction demands not only a contested federal issue, but a substantial one, indicating a serious federal interest in claiming the advantages thought to be inherent in a federal forum.” *Id.* Second, the Court required that federal jurisdiction be consistent with congressional judgment about the sound division of labor between state and federal courts governing the application of § 1331. *Id.*

The Court summarized the standard as follows:

[T]he question is, does a state-law claim necessarily raise a stated federal issue, actually disputed and substantial, which a federal forum may entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities.

*Id.* at 314.

### C. The Holdings of *Air Measurement* and *Immunocept* Do Not Conflict with *Grable*.

Like the present case, both *Air Measurement* and *Immunocept* addressed malpractice actions that originated in Texas. The malpractice action in *Air Measurement* was filed in the state court then removed to the federal court. The complaint alleged various errors made by the patentee's patent attorney in prosecuting a patent and in subsequent lawsuits asserting the patent was against alleged infringers. Those lawsuits all settled without any judicial determination of infringement, invalidity or unenforceability. *Air Measurement*, 504 F.3d at 1266.



The Federal Circuit ruled:

“Because we conclude that the patent infringement question is a necessary element of AMT’s malpractice claim and raises a substantial, contested question of patent law that Congress intended for resolution in federal court, we affirm.”

*Air Measurement*, 504 F.3d at 1265. This statement is a succinct statement of the *Grable* standard recited above.

In considering the jurisdictional issue, *Air Measurement* addressed the case-within-a-case aspect of the malpractice action causation element. Under Texas law, the elements of a malpractice claim are: (1) a duty owed to the plaintiff, (2) breach of that duty, (3) proximate causation of plaintiff’s injuries, and (4) damages. *Air Measurement*, 504 F.3d at 1268. Where the claim stems from unsuccessful prior litigation, the plaintiff must establish proximate causation by proving that it would have prevailed in the prior litigation but for the alleged negligence. *Id.* at 1268–69. In that case, this meant the plaintiff would have to prove it would have prevailed in the underlying patent infringement action but for the alleged malpractice.

The defendant-appellant in *Air Measurement* argued that *Grable* added an additional dimension to the *Christianson* test based on the congressionally approved balance between federal and state jurisdiction. *Air Measurement*, 504 F.3d at 1271. The Federal Circuit rejected this argument, concluding that the federalism concern expressed in *Grable* was not new and that *Grable* did not change the “arising under” case law. *Id.*

There is a strong federal interest in the adjudication of patent infringement claims in federal court because patents are issued by a federal agency. The litigants will also benefit from federal judges that have experience in claim construction and infringement matters. *See Grable*, 545 U.S. at 1315, 125 S. Ct. 2363; *see also Lacks Indus., Inc. v. McKechnie Vehicle Components, USA, Inc.*, 322 F.3d 1335, 1341 (Fed. Cir. 2003) . . . Under these circumstances, patent infringement justifies “resort to the experience, solicitude, and hope of uniformity that a Federal forum offers on federal issues.” *Grable*, 545 U.S. at 312.

*Air Measurement*, 504 F.3d at 1272.

The malpractice action in *Immunocept* was filed in the United States District Court for the Western District of Texas, relying upon § 1338 for jurisdiction. The alleged malpractice was malpractice in the conduct of patent prosecution before the USPTO.

The *Immunocept* decision, rendered by the same Federal Circuit panel and on the same day as *Air Measurement*, characterized *Grable* as merely rephrasing *Christianson*’s two-part test: “The Supreme Court later rephrased the *Christenson* two-part test as a determination of whether ‘a state-law claim necessarily raise[s] a stated Federal issue, actually disputed and substantial, which a federal forum may entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities.’” *Immunocept*,

504 F.3d at 1284 (quoting *Grable*, 545 U.S. at 314.)

Consistent with the *Grable* test, the Federal Circuit first found that because the alleged claim drafting error was the “sole basis of negligence, the claim drafting error is a necessary element of the malpractice cause of action.” *Immunocept*, 504 F.3d at 1285. The court went on to address the next two elements of the *Grable* test, namely, that the issue be actually disputed and be a substantial question.

The parties, however, dispute whether there was a drafting mistake. Therefore, if determining claim scope involves a substantial question of federal law that passes the federalism muster of *Grable*, there is §1338 jurisdiction over the malpractice claim under both *Christensen* and *Grable*.

*Id.* at 1285. After reviewing some of its prior case law regarding § 1338 jurisdiction, the court continued:

Because patent claim scope defines the scope of patent protection, . . . , we surely consider claim scope to be a substantial question of patent law. As a determination of patent infringement serves as a basis of §1338 jurisdiction over related state law claims, so does a determination of claim scope. After all, claim scope determination is the first step of a patent infringement analysis. . . .

*Id.* (citations omitted).

The court went on to consider the federalism concerns and whether the exercise of jurisdiction in a federal forum would disturb any congressionally approved balance of federal and state judicial responsibilities. In addressing this, the court observed that because a claim scope determination is a complex question of law, litigants would benefit from federal judges who are accustomed to handling the complicated rules. *Immunocept*, 504 F.3d at 1285. "Additionally, Congress' intent to remove non-uniformity in the patent law, as evidenced by its enactment of the Federal Courts Improvement Act of 1982, Pub. No. 97-164, 96 Stat. 25, is further indicium that § 1338 jurisdiction is proper here." *Id.* at 1285-86.

The Federal Circuit holdings in *Air Measurement* and *Immunocept* expressly and properly applied this Court's law regarding "arising under" jurisdiction and, particularly, the test as articulated in *Grable*.

**D. Congress' Exclusion of State Court Jurisdiction and Manifest Desire for National Uniformity Express Congressional Intent that Embedded Issues Touching Patent Law and the Regulation of Its Practice Are Substantial as a Matter of Law.**

- 1. Because Federal Jurisdiction of Patent Claims Is Exclusive, a Relatively Bright-line Should Delineate When a Patent Issue Gives Rise to Federal Jurisdiction So As to Avoid Injustice.**

In *Christianson*, the parties were bounced back and forth in a game of "jurisdictional ping-pong" between

the two courts of appeal, each claiming the other had jurisdiction. The Court noted the expense and frustration that this can cause parties to litigation, nonetheless acknowledging that such problems are inherent in drawing jurisdictional lines in close cases. 486 U.S. at 818.

The risk of injustice is particularly egregious when the issue is exclusive jurisdiction, such as under § 1338. In cases of jurisdiction under § 1331, the state courts, being courts of general jurisdiction, will always be available to a plaintiff in a case where federal jurisdiction is a close call. This is not so, however, under § 1338.

Because jurisdiction under § 1338 is exclusive, a plaintiff making a misjudgment as to which court has jurisdiction may risk loss of its claim. This is exemplified by the patent malpractice claim at issue in *Magnetek v. Kirkland & Ellis, LLP*, 954 N.E.2d 803, 352 Ill. Dec. 720 (App. 2011). In that case, plaintiff filed a malpractice suit in state court in August, 2008, alleging negligence in a patent litigation. The trial court dismissed the case in April, 2010 for lack of subject matter jurisdiction. Promptly thereafter, the plaintiff brought a new action in the United States District Court for the Northern District of Illinois. That action was met with a motion to dismiss for filing the action after the expiration of Illinois' applicable 2 year statute of limitations. See *Magnetek, Inc., v. Kirkland & Ellis, LLP.*, Case No. 10-C-2131, 2010 WL 3052224 (N.D. Ill. Jun. 7, 2010) (Defendant's motion to dismiss pursuant to Fed. R. Civ. Pro. 12(b)(6)).

In *Grable*, Justice Thomas wrote a concurring opinion to emphasize his view that "jurisdictional rules should



be clear.” 545 U.S. at 321. He observed that no one had asked the Court to adopt the rule Justice Holmes had set forth in *American Wellworks Co. v. Layne & Bowler Co.*, 241 US 257 (1916). Justice Holmes argued that §1331 jurisdiction should be limited to cases in which federal law creates the cause of action pled on the face of the plaintiff’s complaint. Justice Thomas, in his concurrence, observed that “whatever the vices of the *American Wellworks* rule, it is clear.” *Id.* at 321. The majority in *Grable*, however, expressly reaffirmed its rejection of the bright line Justice Holmes would have drawn. *Id.* at 314.

Petitioner characterizes the “arising under” case law as “muddled” and argues for a bright-line test that would exclude all patent malpractice actions from the federal courts. Petitioners’ Brief 47–54. Petitioners’ proposed bright line, however, would lead to a chaotic circumstance where fifty states would regulate what constitutes malpractice before the USPTO and influence the conduct of attorneys handling matters exclusively relegated to the federal courts. It would also conflict with Congressional intent discussed *infra*.

The AIPLA Brief, at 20, argues that state law claims with embedded patent law questions should be deemed “substantial” only if presenting “issues relating to the validity, construction or effect of the patent laws, whose resolution would settle a significant question of patent law and govern future cases.” This standard would overturn *Air Measurement* and *Immunocept*, based upon the questionable assumption that there is a distinction between the application of law and the construction or effect of the law. More importantly, it too is at odds with the intent of Congress expressed when it created the Federal Circuit:



Presently, there are three possible forums for patent litigation, the Court of Customs and Patent Appeals, a federal district court, or the Court of Claims. Although these multiple avenues of review do result in some actual unresolved conflicts in patent law, *the primary problem in this area is uncertainty which results from inconsistent application of the law to the facts of an individual case.* Even in circumstances in which there is no conflict as to the actual rule of law, the courts take such a great variety of approaches and attitudes toward the patent system that the application of the law to the facts of an individual case produces unevenness in the administration of the patent law.

House Rep. No. 97-312, 97th Cong., 1st Sess. 20-23 (1981) (hereafter House Rep.) (emphasis added). Congress expressly sought uniformity in the application of the patent laws, not just consistent construction or effect (assuming such can be discerned without reference to context).

What remains is a recognized need for a relatively clear line in view of the greater risks a mistaken judgment on jurisdiction may cause when federal jurisdiction is exclusive. Even where the issue was solely one of which appellate court had jurisdiction, this Court recognized that jurisdictional uncertainty "would undermine public confidence in our judiciary, squander private and public resources, and commit far too much of this Court's calendar to the resolution of fact specific jurisdictional disputes that lack national importance." *Christianson*, 486 U.S. at 818-19.

**E. The Federal Courts Improvement Act of 1982 and the America Invents Act Reflect a Congressional Intent that All But Immaterial, Inferential or Frivolous Patent Law Questions Are “Substantial” for the “Arising Under” Analysis.**

This Court has strived to apply the same set of rules to determine “arising under” jurisdiction regardless of the jurisdictional statute that employs those well-worn words, being constrained by “linguistic consistency.” *Christianson*, 486 U.S. at 808–09. The *Grable* test, while perhaps not a “single, precise, all-embracing” test, nonetheless in application can provide greater certainty in determining jurisdiction under § 1338(a), by recognizing that Congress has evidenced its intent that all embedded patent law questions other than those that are immaterial, inferential, or frivolous, present “substantial” federal questions.

While § 1338(a) applies the same “arising under” terminology as § 1331, in applying the *Grable* test, this Court should acknowledge that the exclusivity of the jurisdiction under § 1338(a) is a congressional expression reflecting the substantiality of questions affecting patents and patent law. There are few other areas where Congress has taken the step of making federal court jurisdiction exclusive.<sup>5</sup>

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5. Title 28 provides admiralty cases, 28 U.S.C. § 1333, and certain aspects of bankruptcy cases brought under title 11, 28 U.S.C. § 1334(e)(2), as subject to exclusive federal court jurisdiction.

Congress also expressed its view that patent law issues in general are substantial federal issues in the creation of the Federal Circuit Court of Appeals under the Federal Courts Improvement Act of 1982 ("FCIA"). Congress sought uniform application of the patent laws, and to avoid forum shopping, by consolidating appeals from patent cases into one court, the Federal Circuit. Congress apparently did not chose the best statutory language to implement its intent, *see Holmes Group Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 833–34 (2002), but these were Congress' goals in creating the Federal Circuit. Further, the legislative history manifests Congress' intent to vest the newly-created Federal Circuit Court of Appeals with broad and diverse jurisdiction to hear cases involving non-patent law issues when related and non-frivolous patent issues were also present. *See* H.R. Rep. No. 109-407, at 9 (2006). The Federal Circuit has implemented Congress' intent by carefully exercising jurisdiction only over cases in which a party's claim for relief arose under the federal patent laws or where a plaintiff's right to relief depends on the resolution of a substantial question of federal patent law. *Holmes Group, Inc. v. Vornado Air Circulation Sys.*, 13 Fed. Appx. 961 (Fed. Cir. June 5, 2001) (vacating judgment and remanding case to district court); *Air Measurement*, 504 F.3d 1262 (discussed *supra* at Sec. II.C) and *Immunocept*, 504 F.3d 1281 (discussed *supra* at Sec. II.C).

In adopting recent amendments to Sections 1338(a) and 1295(1) of Title 28 in the America Invents Act of 2011 ("AIA"), Congress affirmed its intent to vest the Federal Circuit with broad and diverse jurisdiction. The amendments to Sections 1338(a) and 1295(1) were prompted by this Court's decision in *Holmes*, which

applied the well-pleaded complaint rule to hold that a counterclaim seeking relief for patent infringement did not make the civil action one “arising under” the patent laws. H.R. Rep. No. 109-407, at 5. Congress expressed its belief that the *Holmes* decision “contravened the will of Congress when it created the Federal Circuit.” *Id.* Congress was concerned that the *Holmes* decision would “induce litigants to engage in forum-shopping among the regional circuits and State courts” resulting in the “erosion in the uniformity or coherence in patent law that has been steadily building since the Circuit’s creation in 1982.” *Id.*

The AIA legislatively reversed *Holmes*, providing that a patent counterclaim provides removal jurisdiction in the district court pursuant to 28 U.S.C. § 1454. Pub. L. 112-29, 125 Stat. 284, 331–32 (codified as amended 35 U.S.C. §§ 1338(a), 1295(1)). While leaving the first sentence of § 1338 the same, the AIA broadened the extent to which state court subject matter jurisdiction is excluded: “No State court shall have jurisdiction over any *claim for relief arising under any Act of Congress relating to patents ....*” *Id.* (emphasis added). This provision essentially mandates that the district courts hear all claims for relief under the patent laws, and overrules the application of the well-pleaded complaint rule as a limitation for “arising under” jurisdiction under § 1338(a).

The AIA jurisdictional amendments became effective on September 16, 2011. What is important here is the clear reaffirmation that patent law issues are particularly viewed by Congress as substantial issues of federal law. Congress explained:

the statutory language in question specifically requires that the district court have jurisdiction under 28 U.S.C. § 1338. This, standing alone, is a substantial requirement. *Immaterial, inferential, and frivolous allegations of patent questions will not create jurisdiction in the lower court, and therefore will not create jurisdiction in the appellate court.*

H.R. Rep. No. 109-407, at 41 (emphasis added). This suggests that where the claim raises a patent law issue that is *not* immaterial, inferential or frivolous, the district court is presented with a “substantial” issue of federal patent law.

**F. District Court Jurisdiction Over Patent Malpractice Actions Does Not Distort Any Division of Labor Between the State and Federal Courts Provided or Assumed by Congress.**

*Grable* provided a separate federalism test even where the state action discloses a contested and substantial federal question: “the federal issue will ultimately qualify for a federal forum only if federal jurisdiction is consistent with congressional judgment about the sound division of labor between state and federal courts governing the application of § 1331,” or, here, § 1338(a). 545 U.S. at 313-314.

This factor seeks an assessment of congressional intent, not a balancing of federal and state interests. Accordingly, Petitioners’ discussion of state interests in legal malpractice actions and regulation of attorneys-at-



law has little relevance. Regardless, such interests cannot outweigh the expressed federal interests.

First, Congress vested the federal courts with exclusive jurisdiction in patent matters. Particularly in the face of Congress' recent broadening of the state court exclusion of jurisdiction over patent cases, it cannot be argued that Congress intended to veto a broad scope of federal court jurisdiction over matters touching patent law issues.

Second, Congress authorized the USPTO to regulate all persons, attorneys and non-attorneys alike, who practice before the USPTO. The procedures within the USPTO include "trials" before the Patent Trial and Appeal Board. As of September 16, 2012, these include *inter partes* reviews. Those trials include the taking of depositions governed by the Federal Rules of Evidence, as well as oral and written argument. Pub. L. 112-29, 125 Stat. 302-03 (codified at 35 U.S.C. § 316). Here, Congress provided for federal regulation subject to federal court review, and there is no basis to argue that federal court jurisdiction over malpractice in this area is inconsistent with any congressionally assumed division of labor. *Cf. Sperry v. Florida ex rel. Florida Bar*, 373 U.S. 379 (1963) (holding state could not bar patent agent from engaging in acts incident to the preparation and prosecution of patent applications before the USPTO).

Accordingly, allowing the federal courts to determine patent malpractice actions is entirely consistent with the judgment of Congress regarding § 1338(a).



### **III. Patent Related Malpractice Actions Will Not Overburden the Federal Courts**

Petitioners imply that if the Federal Circuit's "arising under" approach to legal malpractice claims stands, the federal district courts will be overburdened. (Petitioners' Brief 49–51). Published data show the contrary.

According to the statistical tables of the United States federal judiciary for the calendar years 2000 through 2011, there were a total of 3,197,665 civil actions filed in the district courts. (See the data for each calendar year found in the statistical tables at [http://www.uscourts.gov/uscourts/Statistics/StatisticalTablesForTheFederalJudiciary/StatisticalTables\\_Archive.aspx](http://www.uscourts.gov/uscourts/Statistics/StatisticalTablesForTheFederalJudiciary/StatisticalTables_Archive.aspx)). During that same time period, there were 35,650 actions filed that were characterized as patent actions. (*Id.*, Table C-2 for each calendar year). Thus, over the twelve year period, patent matters accounted for only 1.1% of all civil actions.

Published data relating to malpractice actions are similar. The Standing Committee on Lawyers' Professional Liability of the American Bar Association publishes malpractice data in its Profile of Legal Malpractice Claims studies, as Petitioners have recognized. (See Petitioners' Brief 50–51). Those studies show that for the twelve calendar year period of 2000 through 2011 there were 123,105 total malpractice claims identified by the respondents to the study. These claims covered twenty-five different areas of law. Of this number, during the same time period, there were 2,139 reported claims involving patents, trademarks, and copyrights law areas. Thus, according to the ABA data, the patent, copyright and trademark law claims accounted for 1.74% of the

reported legal malpractice claims. (*See* Am. Bar Ass'n Standing Comm. On Lawyers' Prof'l Liability, Profile of Legal Malpractice Claims 2004-2007 (2008), at 4 tbl. 1, collecting data from 2000 through 2007; Am. Bar Ass'n Standing Comm. On Lawyers' Prof'l Liability, Profile of Legal Malpractice Claims 2008-2011 (2012), at 5 tbl. 1, providing data from 2008 through 2011). On a per year average, there were 178 malpractice actions involving patents, trademarks, and copyrights.<sup>6</sup>

The ABA studies establish that if every one of the 2,139 reported patents, trademarks, and copyrights malpractice actions had related to patents and filed in the federal courts, that number of cases would have added 0.07% more civil cases to the federal court dockets over the twelve year period than actually experienced. This would amount to 1.9 additional cases per district per year. Further, since trademark jurisdiction is not exclusive, upholding the decision of the Supreme Court of Texas would make only a portion of these cases federal cases. On this basis, the district courts would hardly be overburdened by upholding federal jurisdiction.

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6. The ABA studies report more than just patent malpractice matters. The definition of "patents, trademarks, and copyrights" used in each study includes "all aspects of the registration, protection and licensing of patents, trademarks or copyrights; practice before federal and state courts in actions for infringement and other actions; the prosecution of applications before the United States Patent and trademarks Office' counseling with regard to the law of unfair competition as it relates to patents, trademarks and copyrights." (*See* the ABA 2008 study at 21; *see also* the ABA 2012 study at 22).

## CONCLUSION

This Court should affirm the holding of the Supreme Court of Texas and the holdings of the Federal Circuit in *Air Measurement* and *Immunocept*, and rule that in applying the *Grable* standards to jurisdiction under § 1338, patent law issues are “substantial” unless shown to be immaterial, inferential or frivolous.

Respectfully Submitted

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**AMICUS  
CURIAE  
BRIEF**

**In The  
Supreme Court of the United States**

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WILLIAM C. SLUSSER, INDIVIDUALLY;  
SLUSSER WILSON & PARTRIDGE, L.L.P.;  
AND MICHAEL E. WILSON, INDIVIDUALLY,

*Petitioners,*

v.

VERNON F. MINTON,

*Respondent.*

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**On Writ Of Certiorari To  
The Supreme Court Of Texas**

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**AMICUS CURIAE BRIEF OF LAW PROFESSORS  
IN SUPPORT OF PETITIONERS**

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**STATEMENT OF *AMICI CURIAE*<sup>1</sup>**

*Amici* are law professors who teach and write about federal jurisdiction and procedure. The below-listed professors have an interest in ensuring that jurisdictional rules operate fairly and efficiently. To that end, *Amici* write to urge the Court to return to the only workable test that has been proposed for “arising-under” jurisdiction, the test proposed by Justice Holmes. As indicated by the citations throughout this brief, several *Amici* have written in this area long before certiorari was granted in this case. *Amici* are:

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<sup>1</sup> No counsel for any party authored any part of this brief or made any monetary contribution to fund submission or preparation of this brief. No person or outside entity made monetary contributions to fund the preparation or submission of this brief. The parties have consented to the filing of this *amicus curiae* brief, and the consent form was submitted to the Clerk with this brief.



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## **SUMMARY OF ARGUMENT**

The so-called second branch of arising-under jurisdiction has caused too many problems for too little gain. The branch should be clipped, leaving only the Holmes branch remaining: a suit arises only under the law that creates the cause of action. The second branch has created mischief and uncertainty

since its creation, and never has it been close to worth the cost of its maintenance. Contrary arguments contain lofty phrasing about federal power without much connection to reality and understate or ignore both the impact of such a fuzzy jurisdictional test and the intrusion upon state prerogatives.

The impact of such a ruling will be dramatic, minimal, and exaggerated. The ruling will have a dramatic, positive impact on the category of cases that are being delayed while parties argue about unascertainable boundaries and spend too much time litigating about where to litigate. The impact will be minimal on important federal issues actually getting proper review. As for exaggeration, that will likely occur in the law-school classrooms and journals, where lofty adjectives and discussions of ideals have long distorted the actual work done by this troublesome branch.

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## ARGUMENT

- I. **It is finally time to concede that Justice Holmes was right and end the second-branch "arising-under" experiment.**

The Court should eliminate the second branch of arising-under jurisdiction and reinstate the test Justice Holmes created.<sup>2</sup> A suit arises under only the law

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<sup>2</sup> *Am. Well Works Co. v. Layne & Bowler Co.*, 241 U.S. 257, 260 (1916).

that creates the cause of action. After sketching the historical evolution of the second branch, *Amici* will demonstrate that its existence is not justified. The second branch promotes inefficiency, creates litigation about where to litigate, and intrudes upon state prerogatives. These costs are unjustified. And because the current test, which includes the second branch, has nothing to do with the intent Congress manifested when choosing the words “arising under,” this Court can and should eliminate it. Before discussing why the Court should choose the Holmes Test, a brief overview of the arising-under evolution is needed.

**A. The second-branch evolution demonstrates both its problems and its disconnect from manifested congressional intent.**

The statutory inquiry into which cases arise under federal law has never been about manifested congressional intent. And it has created problems and debate throughout its confusing evolution.

**1. Since 1875, determining the scope of statutory “arising-under” jurisdiction has not been an exercise in statutory construction.**

To understand the evolution of arising-under jurisdiction, one must initially note that the same exact words, “arising under,” appear in both Article III Section 2 of the Constitution and 28 U.S.C.

§ 1331.<sup>3</sup> Article III Section 2 provides that the judicial power “shall extend” to certain categories of cases and controversies, known as heads of jurisdiction, and including cases that “arise under” federal law. Despite using this “shall extend” language, Article III Section 2 is not a self-executing grant of jurisdiction to the lower federal courts. That is, it confers no jurisdiction. To have subject-matter jurisdiction, the district courts need congressional authorization. The heads of jurisdiction function as limits on *Congress’s* power to confer jurisdiction on the lower federal courts – they define the maximum reach of the federal judicial power that Congress can confer.<sup>4</sup> When Congress confers jurisdiction on the lower federal courts, it must be able to point to one of the heads of jurisdiction to authorize that particular grant.

From very early on – and long before there was even a congressional grant of general arising-under jurisdiction to construe – this Court construed the *constitutional* arising-under phrase broadly. In the familiar *Osborn v. Bank of the United States* case,<sup>5</sup> this Court confirmed that the Constitution allows Congress to confer jurisdiction when a federal issue is merely a potential ingredient of the case, even if the

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<sup>3</sup> Rory Ryan, *No Welcome Mat, No Problem?: Federal-Question Jurisdiction After Grable*, 80 St. John’s L. Rev. 621, 622-25 (2006).

<sup>4</sup> *Id.*

<sup>5</sup> *Osborn v. Bank of the United States*, 22 U.S. 738, 823 (1824).

federal issue is unlikely to be disputed. This broad reading has been consistently reaffirmed.<sup>6</sup>

In 1875, about fifty years after *Osborn*, Congress finally passed a general statute authorizing what's now known as arising-under jurisdiction.<sup>7</sup> When it passed this statute, it chose and enacted the words "arising under." What intent did Congress manifest in 1875 when it granted this jurisdiction? It granted jurisdiction during Reconstruction to "prevent states from thwarting its Reconstruction era constitutional amendments and legislation."<sup>8</sup> Of all the available words, it chose the two that appeared in the Constitution and that had been construed so broadly in *Osborn*. "From the perspective of one construing the statute in 1876, it certainly seems that Congress attempted to extend jurisdiction to the constitutional limits defined in *Osborn*."<sup>9</sup> The meager legislative history and contemporary commentary support this interpretation.<sup>10</sup>

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<sup>6</sup> See, e.g., *Verlinden B.V. v. Cent. Bank of Nigeria*, 461 U.S. 480, 492-93 (1983); see also, e.g., *Osborn v. Haley*, 549 U.S. 225, 244-45 (2007); *Mesa v. California*, 489 U.S. 121, 136 (1989).

<sup>7</sup> Rory Ryan, *It's Just Not Worth Searching for Welcome Mats with a Kaleidoscope and a Broken Compass*, 75 Tenn. L. Rev. 659, 663-66 (2008).

<sup>8</sup> Robert J. Pushaw, Jr., *A Neo-Federalist Analysis of Federal Question Jurisdiction*, 95 Cal. L. Rev. 1515, 1551 n.229 (2007).

<sup>9</sup> Ryan, *supra* note 7, at 664.

<sup>10</sup> 2 Cong. Rec. 4986-87 (1874); see also Ray Forrester, *The Nature of a "Federal Question,"* 16 Tul. L. Rev. 362, 375-76

(Continued on following page)

But this Court quickly realized it would not be feasible to apply the *Osborn* Test to the statutory grant. If the district courts had jurisdiction over all cases involving even a potential federal ingredient, little would be outside the federal reach. Accordingly, the Court narrowed the *statutory* interpretation with doctrines such as the well-pleaded-complaint rule.<sup>11</sup> Perhaps this contratextual interpretation was indeed a matter of institutional self-preservation,<sup>12</sup> but the important point is that, from the time this Court started reading the statutory phrase to mean something different from the same constitutional phrase, this Court's writings about the statute have been normative, not interpretative.

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(1942); Pushaw, *supra* note 8, at 1551 n.229; Felix Frankfurter, *The Business of the Supreme Court of the United States—A Study in the Federal Judicial System: II. From the Civil War to the Circuit Courts of Appeals Act*, 39 Harv. L. Rev. 35, 44 n.34 (1925) (explaining the “barren” nature of contemporary periodicals concerning the enactment of the Act of 1875).

<sup>11</sup> *Louisville & Nashville R.R. v. Mottley*, 211 U.S. 149, 152 (1908). *Franchise Tax Bd. of Cal. v. Constr. Laborers Vacation Trust for S. Cal.*, 463 U.S. 1, 8-12 (1983).

<sup>12</sup> Richard D. Freer, *Of Rules and Standards: Reconciling Statutory Limitations on “Arising Under” Jurisdiction*, 82 Ind. L.J. 597, 615 (1987) (“It is not an overstatement to say that the Court’s retreat from *Osborn* as the statutory standard for ‘arising under’ was rooted ultimately in institutional self-preservation.”).



**2. The second branch of "arising-under" jurisdiction has been problematic since its creation.**

The federal-question statute provides that district courts have original jurisdiction of "civil actions arising under" federal law.<sup>13</sup> Justice Holmes construed these words to mean something simple: "A suit arises under the law that creates the cause of action."<sup>14</sup> Justice Holmes would simply ask: Plaintiff, what sovereign created the private cause of action that you say you can prove with your facts? If, for example, the plaintiff's cause of action was based on 42 U.S.C. § 1983, then plaintiff would answer "The United States," and the civil action would arise under federal law. On the other hand, if the plaintiff claimed that a court should award a remedy because the defendant was negligent *per se* or because defendant violated the appropriate standard of care for lawyers, then plaintiff would have to answer that the relevant State defined the cause of action, and the suit would arise only under that State's law.

The second branch was born because sometimes federal issues must be resolved in order to determine a plaintiff's entitlement to recover under a state cause of action. For example, a plaintiff might rely upon violation of a federal statute to supply one ingredient of a state's negligence-*per-se* cause of

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<sup>13</sup> 28 U.S.C. § 1331.

<sup>14</sup> *Am. Well Works Co.*, 241 U.S. at 260.

action.<sup>15</sup> Or a plaintiff might allege that a tax statute is relevant to determining whether the plaintiff can establish superior title, an element of a state's quiet-title claim.<sup>16</sup> These cases would fail the Holmes Test, so a second branch of jurisdiction would have to be created before classifying these state-law claims as "arising-under" federal law.

*Smith v. Kansas City Title and Trust Company*<sup>17</sup> is commonly credited with creating this second branch. In *Smith*, Missouri law created a derivative cause of action for shareholders to enjoin corporations from purchasing unlawful bonds. Smith sought to enjoin the corporation from purchasing bonds authorized by the Federal Farm Loan Act of 1916. Smith alleged that the bonds were unlawful (an element of the state-created cause of action) because the Farm Loan Act was unconstitutional. Thus, while Missouri state law created Smith's cause of action, his well-pleaded complaint necessarily raised a question of federal law as an element of his state-law claim. The Court rejected Justice Holmes Test, apparently puzzling Justice Holmes who had written for the Court just a few years prior.<sup>18</sup> Thus, the second branch was

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<sup>15</sup> *Merrell Dow Pharm., Inc. v. Thompson*, 478 U.S. 804, 822-23 (1986).

<sup>16</sup> *Grable & Sons Metal Products, Inc. v. Darue Eng'g & Mfg.*, 545 U.S. 308, 314-15 (2005).

<sup>17</sup> 255 U.S. 180 (1921).

<sup>18</sup> *Id.* at 213-15.

born; Justice Holmes Test could not be relied upon as a test of *exclusion*.

An overwhelming majority of federal-question cases are first-branch cases that satisfy the Holmes Test.<sup>19</sup> In those cases, plaintiffs assert a cause of action created by federal law. With a trivial exception not relevant here,<sup>20</sup> the Holmes Test still works as a test of inclusion. If federal law creates the plaintiff's cause of action, the suit arises under federal law.

The second branch has been problematic from its start. The problem has always been determining *which type* of federal issues embedded in a state-created claim made the case arise under federal law. *Smith's* effort at a definition was too broad to ever be credible. *Smith* suggested that a case arises under federal law if the plaintiff's "right to relief *depends upon* a construction or application of federal law."<sup>21</sup> But that depends-upon formulation was obviously too

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<sup>19</sup> William Cohen, *The Broken Compass: The Requirement That a Case Arise "Directly" Under Federal Law*, 115 U. Pa. L. Rev. 890, 905-06 (1967).

<sup>20</sup> *Shoshone Mining Co. v. Rutter*, 177 U.S. 505, 507 (1900). Although *Shoshone* is commonly cited as a unique example of a case not arising under federal law even when it involves a federally created cause of action, the case has sparse modern progeny. And Professor Oakley has recently concluded that the case did not actually involve a federally created cause of action at all. John B. Oakley, *Federal Jurisdiction and the Problem of the Litigative Unit: When Does What "Arise Under" Federal Law?*, 76 Tex. L. Rev. 1829, 1841 n.63 (1998).

<sup>21</sup> *Smith*, 255 U.S. at 199.

broad. So later cases introduced amorphous limitations, concluding that the federal issue must be “important” and “substantial.”<sup>22</sup> These are strange-sounding words for a jurisdictional inquiry, and they frequently generated much litigation about where to litigate. As Justice Brennan noted, the test was made “sufficiently vague and general” such that “virtually any set of results [could] be reconciled” with a post hoc analysis.<sup>23</sup> And commentators have long battled about both whether this branch should exist and its scope.<sup>24</sup>

A major development seemingly came in 1986, with the *Merrell Dow* decision. It is difficult to explain that decision with a straight face and conclude that much, if any, of the second branch survived it.<sup>25</sup> After all, in rejecting jurisdiction over a state-created negligence per se claim that contained an embedded federal statutory issue, the Court said it would “flout, or at least undermine, congressional intent” to exercise “federal-question jurisdiction and provide remedies

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<sup>22</sup> See, e.g., *Merrell Dow*, 478 U.S. at 806-07; *Franchise Tax Bd. of Cal.*, 463 U.S. at 13; *Gully v. First Nat’l Bank*, 299 U.S. 109, 118 (1936).

<sup>23</sup> *Merrell Dow*, 478 U.S. at 821 n.1 (Brennan, J., dissenting).

<sup>24</sup> See, e.g., Cohen, *supra* note 19; Paul J. Mishkin, *The Federal “Question” in the District Courts*, 53 Colum. L. Rev. 157 (1953); David L. Shapiro, *Jurisdiction and Discretion*, 60 N.Y.U. L. Rev. 543 (1985); John F. Preis, *Jurisdiction and Discretion in Hybrid Law Cases*, 75 U. Cin. L. Rev. 145, 159-62 (2006); see also Ryan, *supra* note 7 at 689 n.4 (collecting authorities).

<sup>25</sup> Ryan, *supra* note 7 at 674-75; see Erwin Chemerinsky, *Federal Jurisdiction* 293 (5th ed. 2007).

for violation of a federal statute solely because the violation of the federal statute is said to be actionable under state law"<sup>26</sup> Using the traditional language of "substantiality," the Court announced that "a congressional determination that there should be no federal remedy for the violation of a federal statute is tantamount to a congressional conclusion that the presence of a claimed violation of the statute as an element of a state cause of action is **insufficiently substantial** to confer federal-question jurisdiction."<sup>27</sup> Courts and commentators, long enamored with the second branch, refused to concede defeat and needed a creative interpretation of *Merrell Dow* to save the second branch.

*Grable* was creative indeed. There, the Court came up with a new, four-part test to explain what really happened in *Merrell Dow*.<sup>28</sup> We learned from *Grable*, remarkably, that *Merrell Dow* was actually decided under the fourth prong of the arising-under test, despite that prong being created in *Grable* two decades after *Merrell Dow* was decided. *Grable* introduced an idea of "disruptiveness" to work alongside the traditional requirement that the federal issue be substantial. *Merrell Dow*, we learned in *Grable*, was not a substantiality case at all (despite the bolded language above). Rather, jurisdiction was rejected because of concerns about disrupting the congressionally

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<sup>26</sup> *Merrell Dow*, 478 U.S. at 812.

<sup>27</sup> *Id.* at 814.

<sup>28</sup> Ryan, *supra* note 7 at 674; *Grable*, 545 U.S. at 314.



authorized balance of jurisdiction between state and federal courts.<sup>29</sup>

Now, after *Grable* redefined the test in 2005, nearly 100 years past the rejection of the Holmes Test, a federal district judge must determine, upon the filing of a complaint or notice of removal, whether the federal issue embedded in a state-law claim is (1) necessary to the resolution of the state claim; (2) actually disputed; (3) and substantial. Even if those three elements are met, the district judge must still reject jurisdiction if exercising it would be disruptive. This is not the better of the two choices of jurisdictional tests.

#### **B. The Holmes Test is a better test.**

The preceding brief recap of the second-branch evolution demonstrates that the new test is not a product of interpretation. It is not a product of consistent adherence to precedent, and instead it involves overt (*Smith*) and covert, time-traveling (*Grable*) departures from prior precedent. Perhaps most oddly, the *Grable* addition to the test purports to consider congressional intent to avoid “disrupting” it. But this disruptiveness addition was added to interpret *Merrell Dow*, which seemed to eliminate the second branch to avoid “flouting congressional intent.” And this congressional-intent-seeking inquiry seems an odd fit in

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<sup>29</sup> *Grable*, 545 U.S. at 314.



a jurisdictional inquiry that has not, since 1875, had anything to do with congressional intent.

Since second-branch precedent is not grounded in interpretation and has been inconsistent, and since a jurisdictional change will not disrupt settled expectations of parties who have ordered affairs based on the ruling, the Court ought not feel bound under *stare decisis* factors.<sup>30</sup> This leaves the Court with seemingly two choices: either construe the statute genuinely and reinstitute the *Osborn* Test, or choose the better test. Assuming that the Court is not going to do the former, *Amici* urge the court to reinstate the Holmes Test as the better test for two reasons. First, jurisdictional rules should be clear. The *Grable* Test is not. It promotes inefficiency and is unworkable. And second, the *Grable* Test does not properly balance the federal, state, and systemic interests.

**1. The *Grable* Test is too vague, fuzzy, and amorphous to work as a jurisdictional test.**

Jurisdictional rules should be clear, and “administration of a jurisdictional statute [should] remain as simple as possible.”<sup>31</sup> Although general, policy-based substantive standards are often preferable to brighter-line rules, the opposite is true for the boundaries of

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<sup>30</sup> See, e.g., *Payne v. Tennessee*, 501 U.S. 808, 829 (1991); see also *Pearson v. Callahan*, 555 U.S. 223 (2009).

<sup>31</sup> *Hertz Corp. v. Friend*, 130 S.Ct. 1181, 1186 (2010).

federal subject-matter jurisdiction.<sup>32</sup> Unclear jurisdictional rules generate litigation about where to litigate. Far too common is the tendency to gloss over this accepted jurisdictional-clarity concept, paying merely lip-service to it. But it is not a throwaway concept.<sup>33</sup> The concept is based on a sound distinction. If the Court defines rigidly a substantive rule defining actionable conduct, the consequence of a case being on the wrong side of the line might be tragic. A person entitled to recover might not. Or a person who should not be liable might be held liable. With federal subject-matter jurisdiction, there is no such consequence. The only consequence of an imperfect bright-line rule is that the case would proceed in a different forum whose procedures and presiders are obligated to conduct a proceeding consistent with constitutional principles of Due Process.

Courts and commentators are tempted to gloss over the clear-jurisdictional-rule preference and then to migrate towards functional standards whenever a situation is encountered that – when viewed in isolation – seems to warrant a result different than would be generated under a bright-line rule. For example, in

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<sup>32</sup> *Hoagland v. Sandberg, Phoenix & Von Gontard, P.C.*, 385 F.3d 737, 739-40 (7th Cir. 2004) (citing *In re Lopez*, 116 F.3d 1191, 1194 (7th Cir. 1997)).

<sup>33</sup> See Jonathan Remy Nash, *On the Efficient Deployment of Rules and Standards to Define Federal Jurisdiction*, 65 Vand. L. Rev. 509, 532 (2012) (“Rule-based [jurisdictional] boundaries . . . enhance efficiency,” while “[m]urky, standard-based boundaries detract from it.”)

*Grable*, why shouldn't a federal court be available to construe the tax law? Or in *Smith*, why should a case involving the constitutionality of a federal statute not begin in a federal district court? But the proper perspective does not ask these questions in isolation. The bright-line preference is based on a bigger picture. The proper perspective does not merely identify a handful of cases over nearly 100 years (since *Smith*) where initial federal jurisdiction seems warranted. Rather, the proper perspective requires systematic examination of the cost of allowing a jurisdictional inquiry that *might* identify that handful of cases. Just two years ago, this Court followed a similar rationale in simplifying the diversity-jurisdiction inquiry into a corporation's principal place of business:

This complexity may reflect an unmediated judicial effort to apply the statutory phrase . . . in light of the general purposes of diversity jurisdiction. . . . But, if so, that task seems doomed to failure. After all, the relevant purposive concern . . . will often depend upon factors that courts cannot easily measure. . . . At the same time, this approach is at war with administrative simplicity. And it has failed to achieve a nationally uniform interpretation of federal law, an unfortunate consequence in a federal legal system.<sup>34</sup>

The flexible nature of the *Grable* Test, like previous versions of the arising-under test, promotes delay

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<sup>34</sup> *Hertz*, 130 S.Ct. at 1192.

without sufficient benefits. For 100 years, commentators and the Court have debated and changed what makes a federal issue substantial.<sup>35</sup> Such amorphous boundaries create an unsanctionable opportunity for (usually a removing defendant) to seek jurisdiction, despite a high probability of jurisdictional rejection (usually remand).<sup>36</sup> In the modern litigation environment, defendants often perceive a significant benefit to removing a case. Delay accompanies such removals and later motions to remand. Although such delay may not be the goal, rarely is substantial delay the enemy of the defendant. Accordingly, it is naïve to believe that defendants will not (and indeed should not) pursue the opportunities created by the second-branch test. Even if the chance of succeeding is small, it is a chance. It is a small chance that comes with an ancillary-delay benefit. And the amorphous nature of the second-branch test, realistically, removes sanctions as a deterrent. Two modest studies demonstrate many of the problems. For example, one *Amicus* looked at two short windows of *Post-Grable* removals. About 87.5% of the removals were remanded, resulting in a nearly six-month average delay just to determine whether the federal court would retain the case. Importantly, though perhaps obviously, it was *all* the cases, including the 87.5% of remanded cases, that

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<sup>35</sup> Ryan, *supra* note 7 at 689 n.4 (collecting authorities).

<sup>36</sup> Ryan, *supra* note 7 at 676; *see also* Note, *Mr. Smith Goes to Federal Court: Federal Question Jurisdiction Over State Law Claims Post-Merrell Dow*, 115 Harv. L. Rev. 2272 (2002).

suffered this delay. Professor Preis looked at decisions post-*Merrell Dow* and found that, remarkably, 44 of 67 cases involving the second branch were remanded by the *appellate court* after the trial court had affirmed jurisdiction.<sup>37</sup>

At least three confusing or vague aspects of the *Grable* Test ensure that things will not get better. First, nobody will ever know what makes a federal issue “substantial.” That is simply a word that means, “we know it when we’ll see it.” That might work for pornography identification,<sup>38</sup> but it is unacceptable for jurisdiction. Second, the test for when a federal issue is “actually disputed” is confusing, given that the one constant since the famous *Mottley* case<sup>39</sup> requires that the Court look *only* to the plaintiff’s well-pleaded complaint and disregard matters appearing in the defendant’s pleading, including things about

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<sup>37</sup> John F. Preis, *Jurisdiction and Discretion in Hybrid Law Cases*, 75 U. Cin. L. Rev. 145, 165-66 (2006). Basic principles of subject-matter jurisdiction also counsel against uncertain jurisdictional tests. For example, the appellate court must raise subject-matter-jurisdiction issues *sua sponte*, and even a party invoking jurisdiction can, if she lost in the trial court, challenge jurisdiction on appeal. See Scott Dodson, *Hybridizing Jurisdiction*, 99 Cal. L. Rev. 1439, 1440-41 (2011); see also Rory Ryan, Luke Meier, Jeremy Counsellor, *Interlocutory Review of Orders Denying Remand Motions*, 63 Baylor L. Rev. 734 (2011) (noting that the lack of subject-matter jurisdiction at the time judgment is rendered automatically constitutes reversible error, with very limited and ill-defined exceptions).

<sup>38</sup> *Jacobellis v. State of Ohio*, 378 U.S. 184, 197 (1964).

<sup>39</sup> *Mottley*, 211 U.S. at 152.



the defendant's pleading that the plaintiff anticipates in her complaint.<sup>40</sup>

And finally, the disruptiveness prong has been doomed from its start, based on its manipulation of levels of generality. In discussing why *Merrell Dow's* exercise of jurisdiction would have been disruptive, the Court said that exercising jurisdiction over a "garden-variety tort claim" that incorporates "federal law" would allow way too many cases into federal court and disrupt some mythical congressionally sought balance. Conversely, exercising jurisdiction in *Grable* was okay because "only the rare state quiet title action" would involve contested issues of "federal tax law."<sup>41</sup> Of course *Merrell Dow* is more disruptive when we classified "negligence per se" as a "garden-variety tort claim" and the embedded federal drug issue as a "federal law." But what if we just switch the levels of generality? "It would be disruptive in *Grable* to allow jurisdiction over any state property dispute that implicates an issue of federal law; but it will be the rare state negligence per-se claim that incorporates the Federal Drug Labeling laws to establish its standard of care." When levels of generality dictate the outcome, predictability is doomed.<sup>42</sup>

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<sup>40</sup> Ryan, *supra* note 3, at 646-47.

<sup>41</sup> *Grable*, 545 U.S. at 319.

<sup>42</sup> Professor Hoffman has also noted another oddity of the relationship between the substantiality of the federal issue and the disruptiveness inquiry, noting that the two inquiries often "pull in opposite directions." Lonny S. Hoffman, *Intersections of* (Continued on following page)



Second-branch jurisdiction is not clear. It never has been clear. It never will be clear. Perhaps some think that the amorphous inquiry is worth the cost. But we should stop giving credibility to a familiar refrain of the second-branch proponents – that the test will develop sufficiently clear boundaries to prove workable.

“Eighty five years of assurances is enough; we should learn our lesson. The nature of the second branch prevents those predictions from coming true. The Holmes rule is criticized as being too rigid in an area that requires flexibility. I do not find persuasive the argument that a flexible standard, which is needed because a rigid rule will not work, will develop sufficient rigidity through litigation.”<sup>43</sup>

There is room for debate about whether the uncertainty is worth the cost. But we “should candidly acknowledge another inevitability of the second branch’s continued reign – in 20 years, another wave of articles will promise that some new clarification by

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*State and Federal Power: State Judges, Federal Law, and the ‘Reliance Principle,’* 81 Tul. L. Rev. 283, 300 (2006) (“If it has been determined that a question of federal law is substantial because its resolution will impact a wide range of persons and behavior, the consequence of shifting so much of the state case-load into federal court will often be that such a profound federalism impact will not be understood to be in accordance with the legislative judgment.”).

<sup>43</sup> Ryan, *supra* note 7, at 670; see also Douglas D. McFarland, *The True Compass: No Federal Question in a State Law Claim*, 55 U. Kan. L. Rev. 1 (2006).

the Court will establish clear boundaries where today's test has failed."<sup>44</sup>

**2. The perceived benefits of the second branch are mostly illusory and do not justify its costs.**

Justice Holmes gave a simple and ascertainable answer to the meaning of the phrase "arising under," a phrase that has "attracted the interest of such giants of the bench as Marshall, Waite, Bradley, the first Harlan, Holmes, Cardozo, and Frankfurter – to name only the dead."<sup>45</sup> Justice Holmes had it right; simpler is better in this context. The contrary arguments over the years have been grounded in lofty adjectives and ideals of federal superiority. But they all underemphasize, exaggerate, or ignore the actual impact of following Justice Holmes.

First, there are not enough second-branch-worthy issues to justify all the hassle. Thousands of pages have been written, and thousands of law school hours spent, debating, modifying, and lamenting the second branch. Why? How often are truly significant federal issues of national import actually brought embedded in state-law suit? Almost never. A brief scan of the articles cited throughout this brief, and an exhaustive Key Cite of *Smith* and progeny reveal very, very few

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<sup>44</sup> *Id.*

<sup>45</sup> 13B Charles Alan Wright & Arthur R. Miller, *Federal Practice and Procedure* § 3562, at 18 (2d ed. 1987).

cases like *Smith* – a landmark federal issue of national significance that becomes embedded in a state-law claim. So we should not assume that the second branch is doing much of the work that caused *Smith's* departure. Even upon reading the much smaller smattering of cases since *Smith* that have satisfied whatever second-branch definition was operative at the time (as opposed to the vast majority that have been delayed before being sent back to state court), one is likely to shrug at the prospect of state courts having first, and usually final, say on the federal issues.

But let us assume that a *few* such cases do arise every twenty five years. What is the consequence of eliminating the Second Branch? Eliminating the second branch only commits the *initial* resolution of these cases to the state courts. These extraordinarily rare big-ticket issues can be reviewed on certiorari after proceeding through the state-court system. Although certiorari jurisdiction is limited, its limits are quite unimportant, given the extreme rarity of the kind of issue that would justify all the costs of the second branch being present for every litigant to argue. These issues arise rarely and therefore will not meaningfully intrude upon the certiorari jurisdiction.

Moreover, even if a few important federal issues (important, but not important to justify certiorari grants) end up being finally resolved by the state courts, this should not sound alarms. State courts were the only tribunals to hear general federal-question

claims until 1875.<sup>46</sup> They cannot constitutionally refuse to hear federal claims.<sup>47</sup> And practically speaking, state courts are unlikely to create additional havoc in ruling upon difficult federal issues. While states outnumber circuits fifty to thirteen, most disputed legal questions have only a few possible answers, and difficult answers already result in a split among the circuits. These circuits do not bind each other, and in fact they do not even bind the geographically contained state courts. It seems unlikely that state courts will diverge from either following a uniform, though disputable, federal interpretation where no federal court has done so or from choosing among already existing disputes among the circuits. Either way, it takes a ruling from this Court to settle things.

There are also important countervailing state and systemic concerns and considerations. Second-branch cases necessarily involve a state-law created cause of action. Removing the case from state to federal court takes the *entire* state-created action out of state court so that the federal court can have its say on one issue.<sup>48</sup> While this jurisdictional allocation allows federal expertise for the disputed federal issue, federal courts become *Erie*-guessers for the rest of the case. And unlike this Court's ability to review a state-court's determination of federal law, the state's high court is

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<sup>46</sup> Erwin Chemerinsky, *Parity Reconsidered: Defining a Role for the Federal Judiciary*, 36 UCLA L. Rev. 233, 240 n.31 (1988).

<sup>47</sup> *Haywood v. Drown*, 556 U.S. 729, 735 (2009).

<sup>48</sup> See McFarland, *supra* note 43, at 29.

unavailable to hear an appeal once the federal proceedings end, left only with the occasionally-available and unsatisfactory prospect of certification.

Even in the instant case – involving exclusive jurisdiction – the balance favors the Holmes Test. Even in an area involving exclusive jurisdiction, federal courts cannot determine what substantiality means. The Federal Circuit (and then the Texas Supreme Court) has conflated substantiality with necessity. The Fifth Circuit’s disagreement with these decisions contains similar conceptual errors.<sup>49</sup> Not only do the courts inconsistently apply the test, they are not even sure what the test is. It is not worth the hassle. These are state legal-malpractice actions that implicate, except for the embedded issue, exclusively state concerns. State judges, not federal judges, have more expertise on the complexity of malpractice actions. And broad notions of “federal expertise” are misplaced anyhow. Just as the federal tax issue in *Grable* would likely have required equal study by generalist judge of either state or federal employment, difficult patent issues are unlikely to find experts waiting in the federal district court. As one *Amicus*, Prof. Janicke, wrote when considering the assumption that federal judges have heightened experience in patent matters: “that assumption is highly overstated. . . . Patent cases equal only 1 percent of cases filed in the U.S. District Courts . . . On average, an individual federal judge has only 1 patent case go all the way through

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<sup>49</sup> *Singh v. Duane Morris L.L.P.*, 538 F.3d 338 (5th Cir. 2008).



trial every 7 years, which means trial level judges may have no more than 3 or 4 such cases over their entire career.”<sup>50</sup> The Federal Circuit’s guidance will aid the state courts, just as the second branch presumes that state precedent would guide the federal courts on *every other* aspect of the case. “What would be the impact if we were to follow the view of Justice Holmes and visit jurisdiction of patent malpractice exclusively on the courts of the states that created the cause of action? The answer is not much, if anything.”<sup>51</sup>

The conclusion below connects all these points into two paragraphs, to allow this Court to evaluate which test is best.

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## CONCLUSION

The existence of the second branch has significant costs. It has always been justified by amorphous policies, abbreviated as “there are just some federal issues that should be resolved in a federal court.” Once that justification is accepted, clear boundaries are unattainable, resulting in an elusive jurisdictional test. Such jurisdictional tests create significant costs. They create litigation about where to litigate and delay for all cases that come within the arguable

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<sup>50</sup> Paul M. Janicke, *The Patent Malpractice Thicket, Or Why Justice Holmes Was Right*: Publication Forthcoming, Vol. 50 Houston L. Rev. (2012) (presently slotted to begin at page 102).

<sup>51</sup> *Id.*



bounds of its undiscoverable boundaries. Over the years, no certainty has developed. None should be expected. And the second branch has not done enough meaningful work to justify its existence. Very few cases fit the *Smith* mold. Those very few that do can, if necessary, be decided by this Court by granting certiorari to review the federal issue. Further, eliminating this branch does more than advance litigation efficiency. It better accounts for the state interests necessarily present in the only cases that trigger a second-branch inquiry – cases where state law creates the cause of action and thus much of which are governed by state law.

For too long, debate about the second branch has been about whether we can identify a handful of cases over many decades where federal resolution is preferable. This academic debate ignores that these issues arise in the context of lawsuits that are being delayed while judges and commentators engage decades-long debates about what is “substantial” or “disruptive” or “necessary.” *Amici* urge the Court to adopt the Holmes Test.

Respectfully submitted,

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**AMICUS  
CURIAE  
BRIEF**

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**In The  
Supreme Court of the United States**

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**JERRY W. GUNN, INDIVIDUALLY, WILLIAMS SQUIRE  
& WREN, L.L.P., JAMES E. WREN, INDIVIDUALLY,  
SLUSSER & FROST, L.L.P., WILLIAM C. SLUSSER,  
INDIVIDUALLY, SLUSSER, WILSON & PARTRIDGE, L.L.P.,  
AND MICHAEL E. WILSON, INDIVIDUALLY,**

*Petitioners,*

vs.

**VERNON F. MINTON,**

*Respondent.*

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**On Writ Of Certiorari To  
The Supreme Court Of Texas**

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**BRIEF OF *AMICI CURIAE* LOS ALAMOS  
NATIONAL SECURITY, LLC; THE REGENTS  
OF THE UNIVERSITY OF CALIFORNIA;  
UCHICAGO ARGONNE, LLC; THE ALLIANCE  
FOR SUSTAINABLE ENERGY, LLC; BATTELLE  
MEMORIAL INSTITUTE; SANDIA CORPORATION;  
UT-BATTELLE, LLC; AND LAWRENCE  
LIVERMORE NATIONAL SECURITY, LLC  
IN SUPPORT OF RESPONDENT**

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## INTEREST OF *AMICI CURIAE*<sup>1</sup>

The amici are a collection of entities operating various national laboratories across the country, including a public university operating one of those national laboratories.<sup>1</sup> America's national laboratories play a central role in scientific discovery and industrial innovation. Discoveries made at our national laboratories have created new industries, led to life-saving innovations, and provided the public with new and useful products. Federally-funded research at national laboratories has led to the development of batteries for electric vehicles, nuclear and magnetic imaging for medical diagnostics, revolutionary cancer treatments, renewable energy sources such as bio-fuels, and national security and defense technologies such as nuclear deterrents.

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<sup>1</sup> No counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amici curiae*, their members, or their counsel made a monetary contribution intended to fund its preparation or submission. The parties have consented to the filing of this brief and letters of consent have been submitted with this brief.

<sup>2</sup> In submitting this Brief of *Amici Curiae*, the *amici* intend only to represent the interests of the individual management and operations contractors of the national laboratories who have joined this brief. The *amici* do not intend to, and this Brief of *Amici Curiae* in no way intends to, express or represent the interests of the United States Government or any of its departments or agencies, including the United States Department of Energy.

Development and commercialization of the basic research conducted at our national laboratories and public universities is achieved through patent protection and federal legislation that uses the patent system to ensure that important inventions can be transferred from the laboratories to the public marketplace. The Bayh-Dole Act, codified as part of the patent statutes at 35 U.S.C. §§ 200-212, for example, promotes the utilization of inventions arising from federally supported research and development at national laboratories and public universities. Under such legislation, national laboratories and public universities have adopted policies to encourage collaboration with commercial concerns, through the use of licensing and technology partnership agreements, to ensure that basic laboratory research will reach and benefit the public.

Successfully implementing laboratory and university policy to promote commercialization and industrial innovation and fund further research depends upon the clear and consistent articulation of rights and obligations of parties operating under the scheme established through the federal patent statutes and related regulations. Therefore, uniform review of patent law issues and disputes arising under the relationships created by the Bayh-Dole Act, for example, by federal courts versed in patent law and federal policy is crucial to realizing the Congressional objective of bringing federally-funded scientific research to market for broad public use and benefit.

Los Alamos National Security, LLC is the operating entity of Los Alamos National Laboratory. Los Alamos National Laboratory's mission is to develop and apply science and technology to ensure the safety, security, and reliability of the U.S. nuclear deterrent, reduce global threats, and solve other emerging national security and energy challenges.

The Regents of the University of California is a board charged by the California Constitution with governing the University of California system, which includes ten university campuses, the direct operation of Lawrence Berkeley National Laboratory, and membership in the limited liability company that operates Los Alamos National Laboratory and membership in the limited liability company that operates Lawrence Livermore National Laboratory. Cal. Const. Art. 9, § 9. The University of California is a public university that educates students from undergraduate levels to the most advanced graduate levels, with a stated commitment to education, research and public service. Several of the University campuses as well as the Office of the President have technology transfer offices, which license University-developed inventions and implement the University's policy and obligation to develop and ensure broad utilization of federally-funded and other University technology so



that the benefits can be enjoyed by the citizens of California and the national general public.<sup>3</sup>

UChicago Argonne, LLC is the operating entity of Argonne National Laboratory. Argonne National Laboratory's mission is to apply a unique mix of world-class science, engineering and user facilities to deliver innovative research and technologies to solve the nation's most important challenges in energy, the environment and national security. Argonne National Laboratory regularly works with industry through exclusive licensing, joint research and a variety of other mechanisms to transfer our inventions to the marketplace.

The Alliance for Sustainable Energy, LLC is the manager and operator of the National Renewable Energy Laboratory (NREL). NREL's mission is to develop renewable energy and energy efficiency technologies and practices, advance related science and engineering, and transfer knowledge and innovations to address the nation's energy and environmental goals. NREL's mission spans the spectrum of clean energy solutions, including pioneering research in

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<sup>3</sup> Los Alamos National Security, LLC and The Regents of the University of California have filed a Petition for a Writ of Certiorari with this Court in *The Regents of the University of California, et al. v. Caldera Pharmaceuticals, Inc.*, Case No. 12-570, presenting the question of whether a patent licensee's state contract and tort law claims against the licensor that require resolution of substantial patent law issues are within the exclusive jurisdiction of the federal courts.



solar, wind, biomass, hydrogen, and geothermal energy. Over the next four decades, by the year 2050, NREL will significantly contribute to meeting U.S. Department of Energy's goals of reducing oil use to less than 15 percent of current levels and CO<sub>2</sub> emissions by more than 80 percent.

Battelle Memorial Institute is the management and operations contractor for the U.S. Department of Energy's Pacific Northwest National Laboratory. The mission of the Pacific Northwest National Laboratory is to transform the world through courageous discovery and innovation. Pacific Northwest National Laboratory delivers leadership and advancements in science, energy, the environment, and national security for the benefit of the U.S. Department of Energy and the nation.

Sandia Corporation is the manager and operator of Sandia National Laboratories, which applies advanced science and engineering to help our nation and allies detect, repel, defeat, or mitigate national security threats. As part of Sandia National Laboratories' core national security mission, it ensures the U.S. nuclear arsenal is safe and can fully support our nation's deterrence policy, provides technical solutions for global security, and enhances the nation's security and prosperity through sustainable, transformative approaches to our most challenging energy, climate, and infrastructure problems.

UT-Battelle, LLC is the management and operations contractor of Oak Ridge National Laboratory.

Oak Ridge National Laboratory's mission is to deliver scientific discoveries and technical breakthroughs that will accelerate the development and deployment of solutions in clean energy and global security, and in doing so create economic opportunity for the nation. Oak Ridge National Laboratory is a unique resource for addressing important national and global energy and environmental issues, pioneering the development of new energy sources, technologies, and materials and the advancement of knowledge in the biological, chemical, computational, engineering, environmental, physical, and social sciences.

Lawrence Livermore National Security, LLC is the operating entity of Lawrence Livermore National Laboratory. Lawrence Livermore National Laboratory's mission is strengthening the United States' security through development and application of world-class science and technology to enhance the nation's defense; reduce the global threat from terrorism and weapons of mass destruction; and, more broadly, respond with vision, quality, integrity and technical excellence to scientific issues of national importance.

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## SUMMARY OF ARGUMENT

Patent law is unique. In enacting the patent statutes, Congress not only crafted a "careful balance between public right and private monopoly," it went even further, creating a specialized patent court as

part of its effort to fulfill its Constitutional mandate to promote progress and innovation. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 167 (1989) (stating that patent law is a “scheme of federal regulation”). In doing so, Congress explicitly recognized that providing uniformity and certainty in the application of patent law is of utmost importance to realizing the underlying purpose of patent law – “to foster technological growth and industrial innovation.” H.R. Rep. No. 97-312, p. 20 (1981).

As the specialized patent court established by Congress, the Federal Circuit’s *raison d’être* is to further the federal interest in promoting the uniform application of patent law, thereby fostering continued innovation. The Federal Circuit furthers this interest by exercising exclusive appellate jurisdiction over patent enforcement actions originating in the federal district courts. It also furthers this interest by exercising exclusive federal jurisdiction over state law claims that pose the same fundamental question raised by enforcement actions – what is the scope of the rights established by federal patent law.

At their core, patent enforcement actions ask courts to determine the parties’ respective rights under the federal patent laws. No one denies that in the context of a patent infringement action, answering this fundamental question is within the exclusive purview of federal courts. Determining the scope of a patent, whether a patent is valid, and whether it is infringed is undeniably the job of the federal courts. And to ensure uniformity in the application of patent

law, determining the rights under other aspects of the federal patent laws should also be the job of federal courts. This is true whether the issues are packaged as an infringement action or a state law contract or tort claim.

Indeed, the cases in which the Federal Circuit has asserted federal jurisdiction over state law claims are ones in which a litigant seeks the determination of rights under a patent grant or the patent statutes, requiring adjudication of not only issues such as patent scope, infringement, and validity, but also the duties when prosecuting patents before the United States Patent and Trademark Office (PTO) and the application of statutes defining particular patent rights. Whether dressed as federal or state claims, determination of these issues by federal courts bound by Federal Circuit precedent and subject to review by the Federal Circuit is what ensures the uniformity and certainty that Congress sought when designing the patent scheme "to promote the progress of science and the useful arts."

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## ARGUMENT

### I. DETERMINATION OF "ARISING UNDER" FEDERAL JURISDICTION UNDER *CHRISTIANSON* AND *GRABLE*

In *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 809 (1988), this Court articulated the standard for determining whether an action is one

“arising under” federal patent law such that it is under the exclusive jurisdiction of the federal courts:

§ 1338(a) jurisdiction . . . extend[s] only to those cases in which a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff’s right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims.

More recently, this Court explained that in applying the “arising under” test, the question is “does a state-law claim necessarily raise a stated federal issue, actually disputed and substantial, which a federal forum may entertain without disturbing any Congressionally approved balance of federal and state judicial responsibilities.” *Grable & Sons Metal Prods., Inc. v. Darue Eng’g & Mfg.*, 545 U.S. 308, 314 (2005).

Applying this test, this Court found the exercise of federal jurisdiction to be appropriate where “the construction *and effect* of the [federal] laws is involved and is sufficiently real and substantial.” *Id.* at 316 (emphasis added) (internal citations omitted); see also *id.* n. 3 (distinguishing case finding no federal jurisdiction where there was an absence of “any controversy respecting [the federal statutes’] validity, construction, or effect”) (emphasis added).



Under this standard, “disputed and substantial” federal issues giving rise to federal jurisdiction are not limited to the narrow subset of state law claims that require construction of a federal statute, the determination of which will settle and resolve a broad swath of future cases. A “disputed and substantial” federal issue includes questions regarding the *effect* of federal law – that is the application of law to the specific facts of the case.

There can be no doubt that the application of patent law to the specific facts of a case is a substantial federal patent issue. Indeed, the Congressionally-expressed “primary” purpose in establishing the Federal Circuit was not to assure consistent construction of the patent laws, but to reduce the “uncertainty which results from inconsistent application of the law to the facts of an individual case.” H.R. Rep. No. 97-312, p. 21 (1981). “[P]atent law is an area in which the application of the law to the facts of a case often produces different outcomes in different courtrooms in substantially similar cases.” *Id.* at p. 20. Congress thus recognized that the “uncertainty created by the lack of national law precedent was a significant problem” and creating a single court for patent appeals would “assure even-handedness nationwide in the administration of the patent laws.” *Id.* at pp. 21, 22. Requiring cases that apply patent law to be reviewed by a single federal appeals court and to be bound by its precedent was Congress’ solution to overcoming the “widespread lack of uniformity and uncertainty of legal doctrine that exist in the



administration of patent law.” *Id.* at p. 23. Conferring state courts that are not bound by Federal Circuit precedent with jurisdiction to apply patent law to the specific facts of state law claims would undermine the stated Congressional goal of providing uniformity and predictability in patent law, frustrating the federal interest in innovation and reliance on the patent system. *Id.* at pp. 20, 23; see also Henry, Mark J., *State Courts Hearing Patent Cases: A Cry for Help to the Federal Circuit*, 101 Dick. L. Rev. 41, 51-59 (1996) (providing examples of decisions where state courts erred in application of patent law).

Therefore, the exercise of federal jurisdiction over state claims requiring application of patent law to the specific facts of the case is not only warranted by this Court’s “arising under” standard, but is also necessary to effect Congress’ clearly stated goals in strengthening the patent system to foster growth and innovation. See *id.* at p. 20.

## **II. THE FEDERAL CIRCUIT PROPERLY ASSERTS FEDERAL JURISDICTION OVER STATE LAW CLAIMS ARISING UNDER IMPORTANT FEDERAL PATENT ISSUES**

State causes of action can raise the same substantial patent issues and implicate the same important federal interests as patent enforcement actions. They seek determination of rights established under the federal patent statutes and the recovery of large amounts of money, coextensive of the

principal reward granted to patent owners in infringement actions.

In this lawsuit, for instance, through a state law malpractice claim, Respondent Minton sought recovery of \$100 million, representing the amount he expected to realize from a successful settlement of a federal patent infringement action. *Minton v. Gunn*, 355 S.W.3d 634, 638 (Tex. 2011). Thus, the determination required and recovery sought in both the infringement and malpractice action were the same: the value of the patent right held by Minton.

However stated – whether as malpractice, contract or tort actions – state law claims that at their core require application of the federal patent statutes implicate Congress’ interest in uniformity and predictability in the application of federal patent law.

#### **A. Patent Attorney Malpractice Actions Require Resolution of “Disputed and Substantial” Federal Patent Issues**

Malpractice actions, such as involved in this appeal, are one prime example of state law claims that raise disputed and substantial patent law issues and implicate the exact policy concerns underlying Congress’ call for federal jurisdiction over patent cases.

Indeed, in malpractice actions involving conduct of attorneys prosecuting patents before the PTO or litigating patent infringement suits, the patent owner

is seeking the rewards represented by an underlying patent grant – the same rewards determined by an infringement action. Recognizing the fundamental federal interest in having federal courts decide and apply uniform Federal Circuit law in making this determination, the Federal Circuit has properly asserted federal jurisdiction over these cases.

In the case of malpractice claims relating to alleged negligence in the prosecution of patents before the PTO, the question at the crux of the claim often is what, if any, valid patent claim is the inventor entitled to, and what is its value. For example, in *Immunocept, LLC v. Fulbright & Jaworski, LLP*, 504 F.3d 1281, 1285 (Fed. Cir. 2007), Immunocept alleged that a drafting error narrowed the scope of its patent, allowing competitors to avoid infringement. Immunocept argued that the error deprived it of the value of investment opportunities it would have secured had it been issued a properly drafted patent. *Id.* at 1283-1284.

Because Immunocept's malpractice allegations centered on the narrow scope of its patent, the Federal Circuit held that resolution of its claim required a court to determine claim scope – a determination that, like infringement, is complex and involves application of many patent law doctrines. *Id.* at 1285-1286. There is nothing hypothetical about the result of this patent analysis – had Immunocept been able to establish that, but for its attorneys' error, it would have been granted a broader patent, it would have been granted the rewards of that broader patent,

regardless of the fact that the broader patent did not actually exist.

Recognizing this, the Federal Circuit gave due regard to the substantial patent questions presented by the malpractice claim, and found the exercise of federal jurisdiction appropriate. *Id.* (“Because patent claim scope defines the scope of patent protection, . . . we surely consider claim scope to be a substantial question of patent law. As a determination of patent infringement serves as the basis of § 1338 jurisdiction over related state law claims, so does a determination of claim scope”) (internal citations omitted). The Federal Circuit specifically noted that the strong federal interest articulated by Congress “to remove non-uniformity in the patent law” further supported the exercise of federal jurisdiction. *Id.* at 1285-1286.

This exercise of federal jurisdiction is also appropriate because the conduct of patent prosecution attorneys is established by the federal patent statutes and regulations. In fact, patent prosecution practice is one of the only areas of law requiring a separate certification beyond a state license, a certification required by patent statute (35 U.S.C. § 33) and granted by a federal agency created by federal patent law. See 35 U.S.C. § 1(a) (establishing the PTO as an agency of the United States). Determination of a breach of those duties requires a court to apply this uniquely federal law to the particular facts of the case, a job that rests with the federal courts. See *Carter v. ALK Holdings, Inc.*, 605 F.3d 1319, 1324-1325 (Fed. Cir. 2010) (holding that claim of breach of



fiduciary duty by attorney involved in patent prosecution before the PTO arises under § 1338(a) because it required determination of attorney's compliance with duties established by federal patent statutes and associated federal regulations and patent examining procedures).

Similarly, in malpractice cases alleging negligence in litigating a patent infringement action, the fundamental question is whether the inventor had valid patent claims that were infringed and what damages is he entitled to under the patent laws. As the Federal Circuit explains in *Air Measurement Techs., Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 504 F.3d 1262, 1269 (Fed. Cir. 2007), the plaintiff must establish that it would have prevailed in its infringement action but for the alleged attorney error. While determination of the merits of the underlying infringement claim may be hypothetical, the result of the determination is not; the plaintiff will be awarded the value of the patent rights it can establish. *Id.* The requirement of proving an infringement "case within a case," by its very nature, requires determination of infringement, a question that is indisputably within the jurisdiction of federal courts. *Id.* ("Indeed, we would consider it illogical for the Western District of Texas to have jurisdiction under § 1338 to hear the underlying infringement suit and for us then to determine that the same court does not have jurisdiction under § 1338 to hear the same substantial patent question in the 'case within a case' context of a state malpractice claim").

In affirming its assertion of federal jurisdiction over state claims such as these, the Federal Circuit has clearly articulated the concerns with allowing state court adjudication of patent issues. Exercise of state court jurisdiction over the application of patent law upsets the system created by Congress to ensure uniformity and incentivize and promote innovation:

State court decisions imposing attorney discipline for conduct before the PTO and in federal patent litigation based on an incorrect interpretation of patent law are almost certain to result in differing standards for attorney conduct and to impair the patent bar's ability to properly represent clients in proceedings before the PTO and in the federal courts. Denying federal jurisdiction over these cases would allow different states to reach different conclusions as to the requirements for federal patent law in the context of state malpractice proceedings. There is a substantial federal interest in preventing state courts from imposing incorrect patent law standards for proceedings that will exclusively occur before the PTO and the federal courts. To be sure, with some exceptions, state law governing attorney malpractice is not preempted by federal law. See *Kroll v. Finnerty*, 242 F.3d 1359, 1366 (Fed. Cir. 2001). But this hardly lessens the significant federal interest in the correct and uniform interpretation of federal patent law in the course of such state malpractice proceedings. That important interest supports recognizing federal jurisdiction where the



outcome of the proceeding depends on an interpretation of federal patent law, and demonstrates that such adjudication does not upset the federal-state balance. *See Christianson*, 486 U.S. at 809.

*Byrne v. Wood, Herron & Evans, LLP*, 676 F.3d 1024, 1026-1027 (Fed. Cir. 2012). The Federal Circuit's reasoning in asserting federal jurisdiction is not only consistent with, but serves to effect the Congressional desire to reduce uncertainty created by different outcomes in the application of patent law to substantially similar cases, ensuring the predictability and uniformity required to promote investment in our patent system. *See* H.R. Rep. No. 97-312 at pp. 20-23. The risk of uncertainty is particularly great when state courts adjudicate patent rights as they are less experienced with the complexities of the law and are not bound to follow Federal Circuit precedent. *See Air Measurement*, 504 F.3d at 1272 ("patent infringement justifies 'resort to the experience, solicitude, and hope of uniformity that a federal forum offers on federal issues'").

#### **B. There Is a Strong Federal Interest in Adjudicating State Contract Claims Based on Patent Licenses in Federal Court**

State law breach of contract claims relating to patent licenses also raise the same important federal issue of uniformity in the application of federal patent law. Like infringement and state law malpractice

litigation, contract claims require determination of the scope of claims, infringement and validity. The royalties due under a patent license represent the reward a patent owner derives from its patent grant, and is exactly the award most often available through infringement actions. See 35 U.S.C. § 284 (“the court shall award the claimant . . . in no event less than a reasonable royalty for the use made of the invention by the infringer”). State contract actions relating to patent licenses and assignment agreements also require the application of various other patent statutes to establish the scope of the parties’ rights under the agreement.

Thus, the parties’ rights and obligations under a patent license or assignment are often defined with reference to the patent laws: *e.g.*, the obligation to pay royalties may depend on whether a patent claim is infringed or may terminate upon a finding of patent invalidity, and who owns what rights may be defined by the patent statutes. Therefore, adjudication of rights and obligations under these agreements often requires determinations of not only infringement and validity, but also inventorship and the nature of the patent rights held, for example.

In *U.S. Valves, Inc. v. Dray*, 212 F.3d 1368, 1370 (Fed. Cir. 2000), the licensee filed a breach of contract claim, alleging that the licensor’s sale of certain valves breached the licensee’s exclusive right to sell valves covered by the licensed patents. The claim for breach therefore required a determination of the scope of the patents and whether licensor’s valves,

absent the license, would have infringed. *Id.* at 1372. There is no question that in the context of an enforcement action, the question of claim scope and infringement is reserved for determination by federal courts. The Federal Circuit concluded that federal jurisdiction should be exercised over the same determinations in state law breach of contract claims. *Id.*; see also *Air Measurement*, 504 F.3d at 1272 (“There is a strong federal interest in the adjudication of patent infringement claims in federal court because patents are issued by a federal agency. The litigants will also benefit from federal judges who have experience in claim construction and infringement matters.”); *Immunocept*, 504 F.3d at 1285-1286 (“Claim scope determination is a question of law that can be complex in that it may involve many claim construction doctrines. Litigants will benefit from federal judges who are used to handling these complicated rules.”).

Moreover, licensees are often uniquely positioned to invalidate patents that would otherwise remain unchallenged. *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969) (“[l]icensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor’s discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification”). Under this Court’s ruling in *Lear*, a licensee can elect to stop royalty payments under the license and challenge the validity of the patent. *Id.* Thus, much like patent enforcement actions, adjudication of rights under a license furthers the

important federal interest of ensuring that monopolies are granted only for legitimate inventions, leaving unfettered access to materials that properly belong in the public domain. Not only do such validity determinations require the resolution of complex patent law issues better suited for federal judges experienced in patent law, but certain validity analyses, like obviousness, which is an issue of law based on findings of fact, are especially susceptible to the wide-ranging inconsistencies in the application of patent law that Congress seeks to rein in.

The need for uniformity in the application of patent law when adjudicating contract rights extends beyond just determinations of infringement and validity. In *Univ. of W. Va. v. VanVoorhies*, 278 F.3d 1288, 1294 (Fed. Cir. 2002), the University of West Virginia alleged that VanVoorhies failed to assign an invention to the university in breach of an express assignment agreement. While there was no dispute that VanVoorhies had assigned all rights to a certain patent application as well as all continuation-in-part (CIP) applications, the issue was whether the invention at issue was in fact a CIP of the assigned application. *Id.* at 1293-1294. Because determination of whether the subject invention was a CIP required application of complex patent law issues defining CIP applications, the exercise of federal jurisdiction under § 1338 was appropriate. *Id.* at 1295. Ensuring that jurisdiction over cases such as these are confined to federal courts that are subject to review and bound by



the Federal Circuit is key to realizing the goals of the federal patent system.

**C. State Law Tort Claims Arising From Assertions of Patent Rights Are Subject to Federal Jurisdiction**

Similar issues relating to the proper scope of and proper reward for patent owners' rights also arise in state law torts other than malpractice actions. As this Court has recognized, there is no "'single, precise, all-embracing' test for jurisdiction over federal issues embedded in state-law claims." *Grable*, 545 U.S. at 314, citing *Christianson*, 486 U.S. at 821 (Stevens, J. concurring). But this Court has recognized that claims should not be kept out of federal court "simply because they appeared in state raiment." *Grable*, 545 U.S. at 314. Where state tort claims raise the fundamental question of what rights are held by a federal patent grant, federal jurisdiction should be exercised.

Recognizing the importance of consistency of patent law determinations, the Federal Circuit has asserted federal jurisdiction over state tort claims that require patent determinations such as infringement and validity. In *Additive Controls & Measurements Sys., Inc. v. Flowdata, Inc.*, 986 F.2d 476, 477 (Fed. Cir. 1993), Adcon filed a business disparagement suit in state court alleging that Flowdata interfered with Adcon's business when it sent letters to Adcon's customers informing them that Adcon was infringing Flowdata's patent. To prevail on its claim,

Adcon was required to show that Flowdata's statements were false, requiring the court to determine whether Adcon infringes. *Id.* Because the state law claim necessitated resolution of infringement, a substantial question of patent law, the exercise of federal jurisdiction was warranted. *Id.* at 478-479.

Similarly, in *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1329 (Fed. Cir. 1998), Hunter Douglas filed numerous state law tort claims alleging Harmonic's statement that it held exclusive rights to make certain products covered by its patents was false because the patents are invalid and unenforceable. At their core, Hunter Douglas' state law claims thus were seeking the determination of invalidity and enforceability which the Federal Circuit recognized, together with infringement, as being "substantial in the federal scheme, for they are essential to the federally created property right: one determines whether there is a property right, another whether that right is enforceable, and the third what is the scope of that right." *Id.* at 1330. Thus, the Federal Circuit asserted jurisdiction, noting Congress' intent to "effect a clear, stable, uniform basis for evaluating matters of patent validity/invalidity and infringement/noninfringement so as to render more predictable the outcome of contemplated litigation, facilitate effective business planning, and add confidence to investment in innovative new products and technology." *Id.* at 1331, citing *Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.*, 895



F.2d 736 (Fed. Cir. 1990) (en banc) (internal citations omitted).

**D. Other State Claims Requiring Determination of Substantial Issues Arising Under Patent Statutes Are Also Subject to Federal Jurisdiction**

Congress' strong interest in creating uniformity in the application of patent law to facilitate further growth and innovation also is achieved through the exercise of federal jurisdiction over other state law claims that require determination of substantial issues under the many patent statutes. *See e.g. Shum v. Intel*, 633 F.3d 1067, 1076 n.4 (Fed. Cir. 2010) (asserting federal jurisdiction where state law claims required resolution of inventorship); *MCV, Inc. v. King-Seeley Thermos Co.*, 870 F.2d 1568, 1570-71 (Fed. Cir. 1989) (federal jurisdiction over inventorship issues under 35 U.S.C. §§ 116, 256); *Imagineering, Inc. v. Van Klassens, Inc.*, 53 F.3d 1260, 1263 (Fed. Cir. 1995) (section 1338 "arising under" jurisdiction over claim for attorneys' fees under 35 U.S.C. § 285); *Morganroth v. Quigg*, 885 F.2d 843, 846 (Fed. Cir. 1989) (section 1338 jurisdiction over right to revival of a patent application under 35 U.S.C §§ 41, 133 and right to file continuation application under 35 U.S.C. § 120).

The exercise of federal jurisdiction over state law claims requiring determination of substantial patent law issues is especially important where there is an additional Congressional articulation of a unique federal interest. The need for predictability achieved

by federal court-review of patent law issues in promoting innovation and industrial growth, for example, is particularly strong where Congress has sought to promote the development and commercialization of basic scientific research for public use. In enacting the Bayh-Dole Act, codified as part of the patent statutes at 35 U.S.C. §§ 200-212, Congress recited its particular objective of using “the patent system to promote the utilization of inventions arising from federally supported research or development.” 35 U.S.C. § 200. The legislation governs the ownership and licensing of, and the government rights in, inventions developed with federal funds. *Id.* §§ 202-203. Therefore, state law actions requiring application of the Bayh-Dole Act to licensing and royalty relationships correctly have been found to “arise under” the patent laws and be subject to exclusive federal jurisdiction. See *Platzer v. Sloan-Kettering Institute*, 787 F. Supp. 360, 366-367 (S.D.N.Y. 1992) (finding “arising under” federal jurisdiction over state contract claims requiring application of Bayh-Dole Act in determining rights to royalty sharing in federally-funded invention).

### **III. ASSERTION OF FEDERAL JURISDICTION OVER STATE LAW CLAIMS INVOLVING SUBSTANTIAL PATENT LAW ISSUES REFLECTS THE INTENT OF CONGRESS**

Assertion of federal jurisdiction over state law claims involving substantial patent issues does not merely comport with Congress’ “intended balance of

federal and state judicial responsibilities," it is vital to effectuating Congressional intent.

Congress initially indicated, and later confirmed by its legislation its specific goal of having a broad scope of substantial patent issues determined in federal court, with appeal to a single Federal Circuit. In enacting the Federal Courts Improvement Act of 1982, Congress established the Federal Circuit for the specific purpose of promoting consistent application of patent law to the specifics of each case and reducing forum shopping, thereby increasing predictability and investment in further industrial development. H.R. Rep. No. 97-312 at pp. 20-23. As this Court has recognized, "Congress conferred exclusive jurisdiction of all patent appeals on the Court of Appeals for the Federal Circuit, in order to 'provide nationwide uniformity in patent law.' H.R. Rep. No. 97-312, p. 20 (1981)." *Bonito Boats*, 489 U.S. at 162.

To achieve uniformity through the consolidation of patent appeals to a single federal appeals court presumes that all substantial patent issues are within the exclusive jurisdiction of the federal district courts. In making clear that the definition of "arising under" for federal jurisdiction would be the same as the definition for the Federal Circuit's broad jurisdiction over patent matters in the federal court system, Congress confirmed this understanding See H.R. Rep. No. 97-312, p. 41 (1981).

Congress again reiterated this intent when it sought to strengthen federal jurisdiction over patent

issues and promote uniformity in its recent enactment of the American Invents Act, the first major patent reform bill in fifty years. In it, Congress expanded federal jurisdiction by extending jurisdiction to counterclaims and expressly removing state court jurisdiction over claims arising under patent laws. 28 U.S.C. § 1338(a). As the legislative history reveals, the patent law amendments were made to preclude “forum-shopping among the regional circuits and State courts,” and to avoid the “erosion in the uniformity or coherence in patent law that has been steadily building.” H.R. Rep. No. 109-407 (2006).

Nothing in the American Invents Act or its legislative history suggests any intent to curtail the exercise of federal jurisdiction or any dispute with the Federal Circuit’s application of “arising under” jurisdiction. To the contrary, Congress expressed its approval and intent to maintain current Federal Circuit precedent by rejecting a proposed amendment to section 1338 that would have eliminated the “arising under” language of § 1338. *See* H.R. Rep. No. 109-407, p. 6 (expressing concern that a proposed amendment would upset existing precedent governing jurisdiction).

As the tool created to effect the Congressional desire for uniformity, predictability, and further investment in innovation, the Federal Circuit’s exercise of federal jurisdiction over patent law issues arising in state law claims has been consistent with Congress’ overall scheme for the patent system.

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**CONCLUSION**

For the foregoing reasons, the judgment of the Supreme Court of Texas should be affirmed.

Respectfully submitted,

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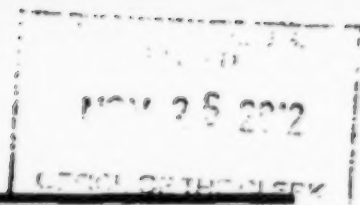
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**AMICUS  
CURIAE  
BRIEF**





IN THE  
**Supreme Court of the United States**

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JERRY W. GUNN, INDIVIDUALLY, WILLIAMS SQUIRES  
& WREN, L.L.P., JAMES E. WREN, INDIVIDUALLY,  
SLUSSER & FROST, L.L.P., WILLIAM C. SLUSSER,  
INDIVIDUALLY, SLUSSER WILSON & PARTRIDGE, L.L.P.,  
AND MICHAEL E. WILSON, INDIVIDUALLY,  
*Petitioners,*

v.

VERNON F. MINTON,  
*Respondent.*

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**On Writ of Certiorari to the  
Supreme Court of Texas**

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**BRIEF OF RONALD E. MALLEN,  
AS AMICUS CURIAE  
IN SUPPORT OF PETITIONERS**

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November 26, 2012

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IN THE  
**Supreme Court of the United States**

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No. 11-1118

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JERRY W. GUNN, INDIVIDUALLY, WILLIAMS SQUIRES  
& WREN, L.L.P., JAMES E. WREN, INDIVIDUALLY,  
SLUSSER & FROST, L.L.P., WILLIAM C. SLUSSER,  
INDIVIDUALLY, SLUSSER WILSON & PARTRIDGE, L.L.P.,  
AND MICHAEL E. WILSON, INDIVIDUALLY,  
*Petitioners,*

v.

VERNON F. MINTON,  
*Respondent.*

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**On Writ of Certiorari to the  
Supreme Court of Texas**

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**BRIEF OF RONALD E. MALLEN,  
AS AMICUS CURIAE  
IN SUPPORT OF PETITIONERS**

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**INTEREST OF AMICUS CURIAE<sup>1</sup>**

I am the principal author of *Legal Malpractice*, a treatise that has been published since 1977 by Thomson/West (hereinafter "the Treatise"). I am also

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<sup>1</sup> No counsel for any party authored any part of this brief – the filing of which has been consented to by all parties – and no person other than myself made a monetary contribution to the preparation or submission of the brief.

a lawyer whose practice over 44 years is primarily the defense of other lawyers.<sup>2</sup> As a result, I am keenly interested in and informed on issues significant to the litigation of attorney malpractice cases, including the issues to be addressed in this case. The Treatise, which consists of five volumes and totals in excess of 8000 pages in its current edition, is revised and republished annually. In my writing and my practice, my goal is to review and incorporate every published and citable decision in the United States that bears on issues related to lawyers' liability. I have also frequently written and lectured to lawyers on the issues presented to this Court. My intent in submitting this brief is to provide the Court with what I hope contributes to an additional and useful understanding of the litigation of malpractice cases.

### **SUMMARY OF THE ARGUMENT**

The premise of this brief is straightforward: the resolution of an issue of patent law by a state trial court concludes nothing more than a hypothetical question. This is so because an issue of federal law in a legal malpractice action does not exist independently, but only in the context of the enveloping issue of whether the lawyer made an error on an issue of federal law or whether that error caused economic loss. As discussed in this brief, state civil courts in legal malpractice actions routinely resolve issues of law that frequently fall within the otherwise

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<sup>2</sup> Although I am also a partner at the firm Hinshaw & Culbertson LLP, the views expressed in this brief are solely my own, and are not provided in my capacity as a partner or on behalf of the firm. Those views also should not be attributed to any clients that I have represented or those represented by the firm.



exclusive jurisdiction of other types of courts, tribunals and administrative bodies. Further, the legal issues that a state court may need to resolve not only can include federal law, but also can require determination of the law of another state or even another country. Nevertheless, the ability of state court to do so is the norm and the accepted procedure.

The Federal Circuit's decisions, however, have carved out a novel exception to the state-law, case-within-a-case methodology of resolving a legal malpractice action where the embedded legal issue is one of federal law. Under the Federal Circuit's analysis, this not only can result in concurrent subject matter jurisdiction under 28 U.S.C. § 1331 for any such issue of federal law, but also exclusive federal jurisdiction under 28 U.S.C. § 1338 if the issue is one of patent law and is substantial. The analysis and resolution of federal law in such a case, however, is anything but "actual," because the "embedded" federal question is relevant only for the purposes of determining whether there was lawyer negligence and whether that negligence caused economic injury. This brief concludes that the expansion of federal jurisdiction over state legal malpractice actions is illogical and unwarranted.

## ARGUMENT

### A. Statement of the Issue

Although I am listed as *amicus* in support of Petitioner, I do not approach this brief as an advocate. I express my views and analysis, as I have written in the Treatise. In that respect, my opinions do generally coincide with those expressed by Petitioners. My perspective is augmented by my experience in repre-

senting attorneys, including the trial of patent law issues.

My experience suggests that intellectual property lawyers may prefer to have legal malpractice cases litigated in a federal forum rather than a state court, because a federal judge is more likely to understand patent law issues. Other factors, however, in a given case may favor a state court forum. Notwithstanding the tactical preferences of the litigants, the issue of jurisdiction needs to be resolved on principles of law.

Thus, the question before this Court is whether the parties have the ability to pursue a legal malpractice claim in other than a federal forum when that action concerns an issue of patent law. That is stated in the Question Presented by Petition for Certiorari:

Did the Federal Circuit depart from the standard this Court articulated in *Grable & Sons Metal Products, Inc. v. Darue Eng'g & Mfg.*, 545 U.S. 308 (2005), for "arising under" jurisdiction of the federal courts under 28 U.S.C. § 1338, when it held that state law legal malpractice claims against trial lawyers for their handling of underlying patent matters come within the exclusive jurisdiction of the federal courts?

*Petition for a Writ of Certiorari*, p. i. Implicit in this question are two separate but related issues: (1) can an embedded issue of patent law in a state tort cause of action support "arising under" jurisdiction in federal court (see 28 U.S.C. § 1331); and, if so, (2) can that issue impose federal jurisdiction that is exclusive (see 28 U.S.C. § 1338), thereby precluding a state court from adjudicating the tort remedy that was created by and arose under state common law?

The controlling standard governing the exercise of federal jurisdiction is not disputed. In formulating that standard under § 1338, this Court said in *Grable & Sons Metal Products, Inc. v. Darue Eng'g & Mfg*, 545 U.S. 308 (2005), that is not enough if a state law claim contains an embedded federal issue. Rather, the federal issue must be “actually disputed and substantial.” *Id.* at 314. The question I posit is whether that issue may be “hypothetical.”

The ability of a federal court to exercise jurisdiction over state legal malpractice claims derives from § 1331, which provides, “The district courts shall have original jurisdiction of all civil actions arising under the Constitution, laws, or treaties of the United States.” The issue, simply stated, is whether a state-law, civil legal malpractice cause of action “arises under... the laws... of the United States” because it involves an embedded federal issue that needs to be resolved to determine whether the lawyer made an error or to determine whether an alleged error caused damages.

This Court will decide whether the Federal Circuit was correct in holding that § 1338 means that a state court does not have the jurisdiction to resolve a state-law legal malpractice action when the embedded issue, concerning fault or causation, is one of patent law. The answer first requires an analysis and resolution of whether, under § 1331, the legal malpractice action “arises under” federal law.

In the Treatise, I address the judicial debate concerning legal malpractice actions against intellectual property lawyers:

The case law, to date, reflects a lack of agreement of whether and when a legal

malpractice claim, based on a state tort, invokes federal jurisdiction because questions of patent law need to be resolved. On one hand, a literal reading of the federal statutes has been interpreted to be controlling, though the issue is only relevant in the context of establishing a state-law legal malpractice claim. On the other hand, the history of legal malpractice litigation shows that the resolution of issues through the case-within-a-case methodology merely determines the issue of negligence, or the fact or extent of damage. Such decisions, often by a trial court, have no or minimal precedential value on the underlying issue. In resolving legal malpractice actions, trial courts (and juries) may seek to determine what an appellate court, administrative panel or military tribunal would have decided. The answer on the federal jurisdiction issues awaits review and resolution by the United States Supreme Court.<sup>3</sup>

## **B. The Demography of Intellectual Property Legal Malpractice Claims**

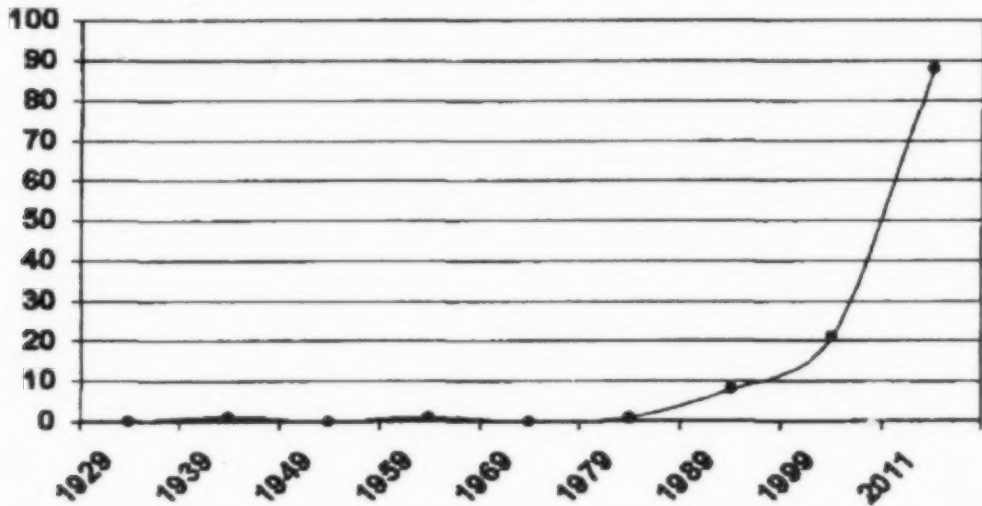
The Federal Circuit's decisions have influenced state courts to defer to federal jurisdiction and mandated that the federal district courts retain (subject matter) jurisdiction when a "substantial" embedded issue of federal patent law is in dispute in a legal malpractice action. Over the last five years, there has been a dramatic increase in claims against intellectual property lawyers. The increase in case law

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<sup>3</sup> See *Legal Malpractice* (2012 edition), §37:1, Introduction—Preliminary considerations.

involving intellectual property lawyers, principally patent lawyers, became so significant that I expanded what were several sections in Chapter 24<sup>4</sup> and created new Chapter 31 that addressed issues related to (and is entitled) Intellectual Property Law. Because of the volume of case law, that chapter has required substantial rewriting each year.

I do not suggest that the increase in the frequency of litigation is attributable to the Federal Circuit's holdings, though it seems logical that the Federal Circuit's directives have resulted in the overwhelming number of cases being litigated in federal courts. The 2012 Edition of the Treatise, in § 31:1, includes the following chart that graphically shows a dramatic increase in the frequency of legal malpractice lawsuits in the intellectual property law area, almost all of which concern patent law.




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<sup>4</sup> Chapter 24 is a catchall entitled, "Areas of Law," in which I discuss practice areas that had not generated sufficient reported decisions to warrant being a separate chapter.



*Legal Malpractice* (2012 edition), §31:1. The chart is based on the number of intellectual property law decisions per time period, as adjusted by United States population, so that it reflects a relative increase of claims. That increase is disproportionately high when compared to the frequency of claims against lawyers generally. In looking at claims against all lawyers from all practice areas, there has actually been not only a leveling, but also a slight decline in claims frequency of legal malpractice claims.<sup>5</sup>

Also, as shown in table of cases in the Treatise § 31:5, the vast majority of decisions concerning legal malpractice claims are emanating from courts as original filings or removals from state court, based on subject matter jurisdiction.

### **C. The Reach of the Federal Circuit's Analysis**

The Federal Circuit's approach requires analysis and characterization of the nature of the underlying federal matter from which the legal malpractice claim arose. The Federal Circuit's reasoning means that embedded issues of federal law in the case-within-a-case procedure in a state legal malpractice action enables concurrent subject matter jurisdiction under § 1331, which can become exclusive federal jurisdiction under § 1338 if that issue is substantial and concerns patent law. The federal issues can arise from a wide variety of alleged errors, ranging from transactional activities, such the failure to

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<sup>5</sup> See Treatise § 1:6. The decline shows an inevitable flattening of the relative increase in claims by population, though the absolute numbers continue to increase.



obtain a patent,<sup>6</sup> to maintain a patent<sup>7</sup> or to obtain the fullest scope of the patent<sup>8</sup>, or it can arise from litigation activities concerning the validity of a patent or infringement of a patent.<sup>9</sup>

Even outside of patent law, the Federal Circuit's reading of *Grable* can mandate exclusive federal subject matter jurisdiction when the issues of legal malpractice involve a "strong interest" of federal law. For example, in 2012, the District Court in *Reserve Management Co., Inc. v. Willkie Farr & Gallagher LLP*, 2012 WL 4378058 (S.D.N.Y.2012), held that claims for legal malpractice based on underlying federal securities laws litigation invoked exclusive federal jurisdiction. The court said that the "strong federal interest in the adjudication of federal securities law claims" corresponds to the federal interest in patent malpractice-related cases. Thus, "as with the federal securities laws, federal courts have exclusive jurisdiction over patent laws." 2012 WL 4378058, at \*7. And in a 2012 Texas decision, *In re Haynes and Boone, LLP*, 376 S.W.3d 839, 847 (Tex.App.2012), a Texas state court applied the Federal Circuit's reasoning to a legal malpractice action arising out of representation concerning antitrust law, concluding that there was concurrent jurisdiction:

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<sup>6</sup> E.g., *Cold Spring Harbor Laboratory v. Ropes & Gray LLP*, 2011 WL 2884893 (D. Mass. 2011) (rejected application).

<sup>7</sup> E.g., *Weil v. Killough*, 2012 WL 3260395 (D.S.C.2012) (failure to pay the 7.5-year maintenance fee).

<sup>8</sup> E.g., *Janssen v. Malin Haley DiMaggio Bowen & Lhota, P.A.*, 2012 WL 2054932 (S.D.Fla.2012) (alleged failure to make all available claims).

<sup>9</sup> E.g., *Lariviere, Grubman & Payne, LLP v. Phillips*, 2011 WL 650001 (D. Colo. 2011).

An analysis applying *Grable* and *Minton* would inform the question of whether the malpractice claim may “arise under” federal antitrust law pursuant to 28 U.S.C. § 1337(a) and therefore be a candidate for concurrent federal subject-matter jurisdiction. But absent authority that state courts are prohibited from exercising jurisdiction over all claims “arising under” federal antitrust law, the *Grable* analysis does not determine whether the malpractice claim is subject to exclusive federal jurisdiction. The relators thus have made no showing that federal jurisdiction over these claims is exclusive to federal courts to the exclusion of otherwise presumed concurrent state-court jurisdiction.

The Federal Circuit’s decisions have, thus, materially changed the predicates for forum selection when state-tort civil legal malpractice actions are being litigated. If a hypothetical federal issue is sufficient to support “arising under” federal jurisdiction, though not exclusive jurisdiction, federal district courts will have concurrent subject matter jurisdiction over any legal malpractice claims that arise from errors concerning federal issues and, potentially, from the mishandling of federal litigation. The consequence is that a party can file in or remove a legal malpractice action to federal court because the underlying issues concern a federal issue in some manner, though the significance of that issue is hypothetical in that it concerns solely either the issue of fault or the causation of damage.

## **D. The “Anatomy” of a Patent-Law Legal Malpractice Claim**

### **1. My Limited Presentation**

In setting forth my analysis, I do not attempt to replicate or join the parties, who have and will in their briefs address the extensive federal case law, statutes and principles that may bear on this Court’s decision. The contribution I seek to make derives from my experience and expertise in malpractice cases. Thus, I address only two issues: (1) does an issue of patent law in a legal malpractice action constitute a *federal* issue that is “actually disputed and substantial”; and (2) what is the practical effect of a state court decision in a legal malpractice action on an issue of federal patent law?

I approach these issues from the perspective of a lawyer whose practice is essentially limited to the litigation of legal malpractice claims and who counsels law firms on issues of risk management, as well as the principal author of what has been the leading treatise in my field since 1977. My focus concerns the essence of a legal malpractice action, with the knowledge that this Court will determine whether and when resolution of a state-law legal malpractice can constitute federal “arising under” subject matter jurisdiction.

### **2. The Case Within a Case—A Land of Hypothetical Issues**

I start with the fundamental principles of the nature of the litigation of a legal malpractice action. I first described this process decades ago, as discussed in § 37:1 of the Treatise. That section addresses the unique rules governing the litigation of

legal malpractice claims and sets the framework for my analysis:

Legal malpractice litigation is a land of second chances. Would-be lawsuits, which were never filed or litigated, are resurrected and tried. Significant legal issues are decided solely as abstract propositions for parties more concerned with the result than with the reasons. Lawsuits that were tried and lost may be retried. Appeals destined for the highest courts, which never left the trial court, are decided as hypothetical questions by trial judges.

My premise is straightforward: the resolution of an issue of patent law by a state (Texas) trial court concludes nothing more than a hypothetical question. The issue is "hypothetical" because a party's interest in resolving the issue is in establishing whether there was an error by the lawyer defendant or whether the former client would have had a better economic result. There are thus practical distinctions between how parties approach a legal malpractice action involving the handling of patent-law related issues and how parties approach an original issue of federal patent law. The parties to the legal malpractice action are only concerned with how the resolution of the embedded federal issue will advance the plaintiff's damages claims or the lawyer's or law firm's defenses.

For example, in the context of a legal malpractice action one often encounters "role reversal." In such circumstances the lawyer who, in the underlying action, advocated the validity of the patent may argue the opposite in the malpractice case, often in an effort to establish that any mistake was of no

consequence. In a malpractice case, then, a party's motives and incentives often are not congruent with reaching the "correct" result of an underlying legal question. In other words, the advocate's interest in litigating a state-tort legal malpractice action is not to resolve a federal issue but to establish or defeat a legal malpractice claim.

Although few state court judges have the expertise of federal district court judges on issues of intellectual property, nevertheless, in resolving legal malpractice claims, state court judges frequently face issues that ordinarily do not arise in civil trial courts. For example, a state trial judge might be asked to decide whether the state's highest court would have granted a petition for review, an issue which only that court can truly decide. That issue also can occur in federal court. The challenge of that task was eloquently illustrated in a 1961 decision in which a West Virginia federal judge pondered the implications of deciding what that state's highest court would have done upon a request for appellate review that had never occurred:

The defendants' position that I should dispose of this case by summary judgment is appealing because it is repugnant to my sense of judicial propriety that I should sit in lieu of the Supreme Court of Appeals of West Virginia, to pass judgment upon the propriety of the rulings of the trial court, which is at least coordinate with mine. To do so I would have to go through the two stages of the appellate procedure and decide, first, that the case is of sufficient public importance or that the possibility of error is sufficiently apparent to make appellate re-



view imperative, and, second, that there was prejudicial error in the trial compelling the granting of a new trial. Even more distasteful would be my embarking upon the third stage. This would require that, upon review of the evidence as set forth in the written transcript (or such parts thereof as were properly admitted), I should find that the weight of the evidence adduced before the jury which heard that evidence and saw the witnesses, was, contrary to the verdict of that jury, on the side of the defendant in the case.

*Better Homes, Inc. v. Rodgers*, 195 F. Supp. 93, 95 (N.D. W. Va. 1961). Despite the seemingly challenging task the federal judge set for himself, trial judges routinely resolve such issues in litigation involving claims of legal malpractice. See also *Daugert v. Pappas*, 104 Wash. 2d 254, 704 P.2d 600 (1985) (whether appellate court would have granted review).

The "landscape" of issues embedded in legal malpractice actions, which arise from the subject matter of the underlying case or transaction, is as broad as the areas of law and procedural contexts in which lawyers practice. These include a litany of issues that often are ordinarily not within the jurisdiction of state court civil judges. The following examples illustrate the hypothetical nature of the resolution of issues embedded in legal malpractice claims.

One such recurring situation is when a state law legal malpractice claim involves an underlying issue that otherwise would fall within the exclusive jurisdiction of a different state court or judicial branch. Issues derived from equity, such as those involving marital, family or probate law, may normally be



handled by specialized courts that do not also handle civil tort litigation. Thus, the underlying case may have involved an issue that concerned a probate proceeding. Although a probate court may have the expertise to resolve the underlying issues, usually, that court does not have the jurisdiction to resolve a civil law legal malpractice claim, even when the underlying matter of *that* claim concerns probate law or proceedings. *E.g.*, *Levine v. Katz*, 167 P.3d 141 (Colo. App. 2006). The probate court must transfer the case to a civil division. *E.g.*, *Hall v. Podleski*, 355 S.W.3d 579 (Mo.App.2011).

Similarly, marital disputes give raise to an abundance of legal malpractice claims requiring resolution of marital law issues. *E.g.*, *Goodman v. Levy*, 2007 WL 641562 (N.D. Ill. 2007); *Ceriale v. Superior Court*, 48 Cal. App. 4th 1629, 56 Cal. Rptr. 2d 353 (2d Dist. 1996). Those matters in legal malpractice actions typically are not resolved in a family law court but by a civil trial court. Concerning alleged legal malpractice in representing criminal defendants, I refer to the cases that are contained in Chapter 27 of the Treatise, which require a civil court to decide questions that are normally handled by the criminal division or department.

Another factor in resolving the issues in the underlying matter is that the right to a jury trial trumps the nature of the tribunal that had jurisdiction over the prior litigation, such as where a judge,<sup>10</sup> an arbitrator or an administrative body otherwise would

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<sup>10</sup> Judges always should decide issues of law. *E.g.*, *Zenith Star Ins. Co. v. Wilkerson*, 150 S.W.3d 525 (Tex. App. 2004). There are some proceedings, however, such as in equity, where the factual issues are typically resolved by a judge (though, sometimes, there can be an advisory jury).

have exclusively decided all issues in the underlying action. *E.g.*, *Chocktoot v. Smith*, 280 Or. 567, 571 P.2d 1255 (1977) (probate matter). Thus, state civil courts are frequently asked to decide what should have happened in an administrative proceeding, such as whether an Administrative Law Commissioner would have determined that a contract between celebrity client and purported agent was subject to the doctrine of severability. *Blanks v. Shaw*, 171 Cal. App. 4th 336, 89 Cal. Rptr. 3d 710 (2d Dist. 2009). Similarly, what an arbitration panel would have done is decided by the case-within-a-case methodology. *Piscitelli v. Friedenbergh*, 87 Cal. App. 4th 953, 105 Cal. Rptr. 2d 88 (4th Dist. 2001).

The common strand among such varying legal malpractice claims is that they are predicated on an alleged error by a lawyer. Whether there was an error, typically, invokes questions of law. The consequences of that error require examination and analysis of the underlying matter. Whether that underlying matter raises an issue that can be described as one that “arises under” federal law is functionally a hypothetical question, because in a legal malpractice action it will bear on either the issue of error or causation.

The history of American legal malpractice jurisprudence allows civil trial courts to resolve those issues that are typically subject to the jurisdiction of a different court or a different tribunal, even when that jurisdiction is otherwise exclusive. Here, the Federal Circuit has said that the rule is different if the underlying matter in a legal malpractice action involves a substantial issue of federal law.

### **3. The Impact of State Court Decisions**

In reflecting on the issue before this Court, I am aware of the Federal Circuit's concern about federal uniformity on issues of patent law. Although that, in and of itself, cannot support federal subject matter jurisdiction, the concern needs to be put into a real-world context when looking at the impact of state courts continuing to have jurisdiction of state-law legal malpractice causes of action, no matter the underlying issues, federal or not.

There is marked difference in the precedential impact between federal and state court proceedings that resolve issues of patent law. Legal malpractice cases that are litigated in federal courts frequently result in decisions that are published in the Federal Reporter. Since 1977, even unpublished federal district court decisions may be cited for persuasive authority, and, frequently, are so cited. Those decisions are available from the courts, Westlaw, Lexis and other sources.

In contrast, state court trial court decisions and trials are just the opposite. A state trial court will decide an issue of patent law in a bench trial or by issuing an order or direction that will be the basis for an instruction to a jury. Written opinions are not the custom. Further, very few state trial court decisions are published officially or, even, unofficially. Thus, rarely are trial court decisions consequential as precedent.

State court appellate decisions, of course, are frequently published, though many states have procedures that result in opinions that are not "officially" published and, therefore, without precedential effect or, even, persuasive value, except in the same matter.

Even then, unless the underlying patent law issue is the subject of the appeal, the appellate decision may have little or no impact on federal law.

### CONCLUSION

As I stated at the outset, I do not submit the brief as an advocate for either side, but in an effort to assist the Court by describing certain aspects of legal malpractice litigation that may be material to its consideration of this case. My conclusion is that resolving a federal issue in the context of the case-within-a-case analysis does not elevate that issue beyond the hypothetical question of whether a lawyer erred and the consequences of that error. In that context, federal issues are no more actual or substantial than a disputed issue of whether the state's highest court would have granted a petition for review and how that case would have been decided, issues that are routinely decided by state trial judges.

For the reasons set forth in this brief, I believe that the judgment of the Supreme Court of Texas should be reversed.

Respectfully submitted,

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November 26, 2012

**AMICUS  
CURIAE  
BRIEF**

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**In the Supreme Court of the United States**

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**BRIEF OF AMICUS CURIAE WOOD, HERRON &  
EVANS, LLP IN SUPPORT OF RESPONDENT**

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**STATUTES**

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|------------------------|----------|
| 28 U.S.C. § 1338 ..... | 6, 8, 11 |
| 28 U.S.C. § 1441 ..... | 17       |
| 35 U.S.C. § 284 .....  | 10       |

**INTEREST OF AMICUS CURIAE<sup>1</sup>**

Wood, Herron and Evans LLP (“WHE”) is a firm of 50 attorneys, all of whom practice exclusively in the intellectual property area. WHE has been filing and prosecuting patent applications before the United States Patent and Trademark Office (“USPTO”) since 1868 – a period of 145 years. As a firm that prosecutes patents on behalf of clients before the USPTO, WHE has an interest in a jurisdictional issue that, if Petitioners succeed, will result in WHE’s work in obtaining patents for its clients – actual, non-hypothetical patents – being questioned and second-guessed by state courts unfamiliar with patent law.

WHE is also a Defendant in a legal malpractice case, *Byrne v. Wood, Herron & Evans*, pending in federal district court in Kentucky. Despite the Federal Circuit’s reversal and remand of the district court’s grant of summary judgment in WHE’s favor (*Byrne v. Wood, Herron & Evans, LLP*, 450 Fed. Appx. 956 (Fed. Cir. 2011)), Plaintiff has petitioned this Court for a writ of certiorari (Case No. 11-1497), in order to argue, like Petitioners in this case, that federal courts lack subject-matter jurisdiction over a legal malpractice

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<sup>1</sup> Pursuant to Supreme Court Rule 37.6, Wood, Herron & Evans LLP certifies that no counsel for any party authored any part of this brief or made any monetary contribution to fund submission or preparation of this brief. No person or entity, other than Wood, Herron & Evans LLP, made a monetary contribution to the preparation or submission of this brief. The parties have consented to the filing of this *amicus curiae* brief, and the consent form was submitted to the Clerk with this brief.

case that requires resolution of issues of patent law in the context of a "hypothetical" patent claim. Plaintiff in *Byrne* asserts that, in hindsight, WHE should have obtained for him that "hypothetical" patent claim, which allegedly would have led to a finding of infringement in a patent infringement case lost by Plaintiff. Plaintiff makes this assertion even though the very "hypothetical" claim that Plaintiff says should have been obtained was twice submitted to the USPTO patent examiner by WHE attorneys and twice rejected by him as unpatentable over the prior art. Plaintiff employs an attorney who has a website through which he solicits unhappy patentees to sue their former patent counsel, <http://jablonski-law.com/index.cfm>.

WHE also points out that, while many of its attorneys are members of the AIPLA, which filed an *amicus curiae* brief on behalf of Petitioners, the AIPLA does not express the views of the firm. To WHE's knowledge, the AIPLA did not consult the views of WHE or other "rank and file" attorneys of the AIPLA who face a dramatically rising number of legal malpractice claims arising out of their day-to-day representation of clients before the USPTO. To the extent that this Court finds the views of the AIPLA's membership of interest, this brief sets forth the views of one firm that is on the "firing line" daily.

## SUMMARY OF ARGUMENT

Wood, Herron & Evans LLP ("WHE") submits this brief to show that proof of a patent infringement "case within a case," which is required to show causation in a legal malpractice case against the plaintiff's former counsel, creates a substantial issue of federal law,



regardless of the fact that at that point the case involves a "hypothetical" patent infringement claim.

The case brought against WHE, *Byrne v. Wood, Herron & Evans, LLP*, Case No. 2:08-CV-102-DCR (E.D. Ky.), illustrates the substantiality of the patent law issue in a legal malpractice case. In *Byrne*, the elements of a legal malpractice claim under state law require the Plaintiff to prove that his patent infringement claim (against Black & Decker) would have been resolved favorably but for WHE's alleged negligence. Thus, just as in this case, in order to recover damages, the plaintiff in *Byrne* must re-try the same patent infringement case he lost. The patent infringement case within the malpractice case involves the same factual and legal elements involved in any other patent infringement case under federal patent law, with the sole exception that the former is based on a hypothetical claim that counsel (allegedly) should have obtained, instead of the actual claim. Despite the patent infringement case's "hypothetical" nature, the court will nevertheless be required to decide substantial issues of patent law – substantial both from the standpoint of importance to the outcome of the case and in the sense that patent issues will inevitably arise, such as claim construction and obviousness, that are important and controversial areas of patent law generally.

Further, the elements of a typical legal malpractice case against patent counsel that are listed in Petitioner's Brief (pp. 44-45) reinforce the point that patent law issues are central to such a case. For example, the trial court's analysis of the applicable standard of care, and of admissible expert testimony on

the standard of care, require consideration of what the patent attorney should or should not have done, and are thus inextricably bound up with substantive patent law. The element of the relation of "any settlement" to the "true value of the case" (Petitioners' Brief, p. 45) requires the court to determine the damages that could have been recovered in the underlying patent infringement litigation. In short, even the list presented by Petitioners shows that the key issues of the lawyer's negligence and the plaintiff's damages will inevitably require decisions on disputed issues of patent law.

Petitioners acknowledge (Brief, p. 50) that the number of patent malpractice cases has surged in recent years. Petitioners, though, fail to recognize that Congressional intent as to uniformity in patent law would be defeated if each state's courts were allowed to determine, in these ever-increasing numbers of malpractice actions, what claims could have been patentable under federal patent law. Petitioners' assertion (Petitioners' Brief, p. 51) that "allowing the state courts to decide hypothetical patent issues will not unduly threaten the uniformity of patent law" and will have a "negligible impact" (*id.* at 52) ignores the practical reality of *stare decisis*. The resolution of the hypothetical claim issue, involving highly disputed areas of federal patent law such as claim construction and obviousness, will affect future state court rulings, since state courts will be bound to follow their own precedents on patent law matters. Practitioners' conduct and judgment when prosecuting a patent before the USPTO will then need to be guided by those precedents, rather than by looking solely to the

guidance of federal cases appealable to the Federal Circuit.

As in *Byrne*, an attorney's ex-client could use the Federal Circuit ruling in its unsuccessful patent infringement case as a blueprint to craft, with 20/20 hindsight, a hypothetical claim that, allegedly, would have succeeded in the infringement lawsuit if his patent counsel had the foresight to have obtained it from the USPTO at the time of prosecution. Unlike in the prior patent infringement litigation, the claim construction and infringement issues in the second lawsuit would be decided by a court immune from review by the Federal Circuit. Multiplication of that process by many cases and 50 jurisdictions would create the antithesis of the uniformity that Congress has sought in patent law.

Last, the need to preserve a "choice of forum" invoked by *amicus* AIPLA (Brief, p. 26) is not a real consideration. If this Court rules in Petitioners' favor, and holds that the federal patent element in state law legal malpractice cases does not create federal subject-matter jurisdiction, then all of those cases will be relegated to state court. There is no federal equivalent to a state law malpractice claim. There will be no "choice" of forum for plaintiffs, and, in fact, the reason that the jurisdictional issue is highly contested is the general desire of plaintiffs to proceed with these cases in front of state juries who favor local plaintiffs over law firms and state courts who "typically do not have much experience deciding patent matters" (Petitioners' Brief, p. 51).

**ARGUMENT****I. PETITIONERS' CONTENTION THAT A "HYPOTHETICAL" PATENT CLAIM DOES NOT RAISE A SUBSTANTIAL ISSUE OF FEDERAL PATENT LAW IGNORES THE REALITY OF LEGAL MALPRACTICE LITIGATION**

Petitioner's sole and fallacious jurisdictional argument is that, because legal malpractice cases in the patent area involve "only hypothetical patent infringement, not actual patent infringement" (Petitioners' Brief, p. 39), the federal interest is not strong enough to give rise to federal jurisdiction under *Grable & Sons Metal Prods., Inc. v. Darue Eng'g & Mfg.*, 545 U.S. 308, 125 S. Ct. 2363 (2005), and the other cases of this Court that delineate when an ostensibly state law claim creates federal jurisdiction under 28 U.S.C. § 1338(a).

Petitioners rightly concede that "[t]he fact that state rather than federal law creates legal malpractice claims is not dispositive, because state law claims with embedded federal issues may come within the federal courts' jurisdiction." Petitioners' Brief, p. 16. "The doctrine captures the commonsense notion that a federal court ought to be able to hear claims recognized under state law that nonetheless turn on substantial questions of federal law, and thus justify resort to the experience, solicitude, and hope of uniformity that a federal forum offers on federal issues . . . ." *Grable & Sons Metal Prods., Inc.*, 545 U.S. at 312, 125 S. Ct. at 2367.

Petitioners further concede that a legal malpractice case based on alleged negligent handling of patent infringement case requires proof of the “case within a case” causation element: would the plaintiff have prevailed in the underlying case but for the lawyer’s negligence.” Petitioners’ Brief, p. 43. The “case within a case” doctrine “is the causation element of all legal malpractice cases.” *Id.* at 15. Moreover, Petitioners concede that, where the underlying case within a case was a patent infringement case, that element of the Plaintiff’s case is a “federal issue.” *Id.* at 45. Nevertheless, Petitioners state flatly that “the ‘case-within-a-case’ causation element of a legal malpractice claim is never a sufficiently substantial federal issue to support ‘arising under’ jurisdiction.” *Id.* at 47. Petitioners assert that the patent issue in such cases is “purely hypothetical” (*id.*) and that “there is only a marginal federal interest in litigating hypothetical patent infringement” (*id.* at 48).

Petitioners however, offer no good explanation as to why the adjective “hypothetical” suffices to diminish the federal law aspects of the case that is litigated. “Hypothetical” does not mean “advisory.” Litigation of patent issues, including claim construction rulings of a state court judge on a hypothetical claim, have real consequences, and may be case-dispositive. *Byrne v. Wood, Herron & Evans*, a case in which WHE is a defendant, illustrates how these legal malpractice cases raise substantial *federal* patent infringement issues despite their “hypothetical” nature.

In *Byrne*, as in this case, the district court ruled that the negligence claim against WHE necessarily raises what Kentucky state law calls a “suit-within-a-



suit.” *Byrne v. Wood, Herron & Evans, LLP*, No. 2:08-102-DCR, 2008 U.S. Dist. LEXIS 61962, at \*12 (E.D. Ky. Aug. 13, 2008). “[T]he elements of a legal malpractice claim under Kentucky law do require the Court to determine whether Byrne’s patent infringement claim (the basis for his alleged lost royalties and license fees) would have been resolved differently but for the Defendants’ conduct. . . . Therefore, in this case, Byrne must prove that his patent infringement suit against Black & Decker [the alleged infringer] would have been successful but for the Defendants’ alleged negligence.” *Id.* at \*11-12.

Thus, just as in this case, in order to recover damages the plaintiff in *Byrne* must re-try the same patent infringement case he lost (a case over which federal courts unquestionably had exclusive jurisdiction under § 1338). That case within a case involves the same factual and legal elements involved in a patent infringement case under federal patent law, the only difference being that it is based on the hypothetical claim that counsel allegedly should have obtained, instead of the actual claim.

In addition, the case within a case in *Byrne* involving the hypothetical claim will inevitably raise substantial questions of patent law that, under the current state of the law, are highly disputed. Every patent infringement case, including a “hypothetical” one, starts with claim interpretation or construction. The determination of patent infringement is a two-step process: 1) construing the meaning of the patent’s claims and 2) applying the properly-construed claims to the allegedly infringing device. *Cybor Corp. v. FAS Techs.*, 138 F.3d 1448, 1454 (Fed. Cir. 1998). The first



step, claim construction, is an issue for the court, not the jury, *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 390-91, 116 S. Ct. 1384, 1396 (1996), and is “the single most important event in the course of a patent litigation,” *Retractable Techs., Inc. v. Becton, Dickinson & Co.*, 659 F.3d 1369, 1370. (Fed. Cir. 2011) (Moore, J.) (dissenting from denial of petition for rehearing en banc).

The plaintiff alleging malpractice must also show that the hypothetical claim would have been patentable, *i.e.*, that it was not anticipated or rendered obvious by prior art. *Minkin v. Gibbons, P.C.*, 680 F.3d 1341, 1348 (Fed. Cir. 2012) (if the “suit-within-a-suit” analysis applies,” then the plaintiff “must prove by preponderant evidence that alternate claim language would have been deemed patentable by the PTO”). The obviousness determination is an issue of patent law that not only can be hotly disputed in an individual case but is also, like claim construction, a controversial area of patent law, and one that has been taken up by this Court twice in recent years. (*KSR Int’l Co. v. Teleflex Inc.* 550 U.S. 398, 127 S. Ct. 1727 (2007), and *Microsoft Corp. v. i4i Ltd. P’ship*, \_\_\_ U.S. \_\_\_, 131 S. Ct. 2238 (2011)).

Petitioners’ attempt to minimize the importance of the case within a case element of a legal malpractice case by listing other potential elements of the case (Petitioners’ Brief, pp. 44-45) ironically only serves to emphasize its importance. The first two elements listed – whether an attorney-client relationship exists and whether there is privity between plaintiff and defendant – are undisputed in this case, in the case against WHE, and in all likelihood in the majority of

legal malpractice cases with a patent law case within a case component. The next two elements listed -- the applicable standard of care, and admissible expert testimony on the standard of care -- require consideration of what the patent attorney should or should not have done, and are thus inextricably bound up with substantive patent law. The next element, the relation of "any settlement" to the "true value of the case" (Petitioners' Brief, p. 45) requires the court to determine the damages that could have been recovered under 35 U.S.C. § 284 in the underlying patent infringement litigation.

In other words, even the list presented by Petitioners shows that the key issues of the lawyer's negligence and the plaintiff's damages will inevitably require decisions on patent law. In any event, the exercise of listing possible state law elements separately, while lumping all of the possible patent law issues (claim construction, infringement, "experimental use," scope of the prior art, obviousness, and on and on) into a single element, is hardly indicative of the substantiality of the federal issue; Petitioners' argument is basically that *seven* blades of grass must be more substantial than *one* football field because seven is greater than one.

In sum, allowing state courts to try malpractice claims against patent counsel will necessarily lead to a large body of state-court opinions interpreting and applying federal patent law on both validity and infringement issues. The widespread use of the case within a case method of analysis of malpractice claims, such as in this case, in *WHE's* case, and others (e.g., *Davis v. Brouse McDowell, L.P.A.*, 596 F.3d 1355, 1361-

62 (Fed. Cir. 2010), *cert. denied*, \_\_\_\_ U.S. \_\_\_\_, 131 S. Ct. 118 (2010)), means that legal malpractice cases inevitably involve a determination of the results that would have been obtained under applicable patent law had patent counsel not committed the alleged malpractice. A better “bright-line rule” than that suggested by Petitioners (Petitioners’ Brief, pp. 46-47) is that, due to the importance of the case within a case to a legal malpractice claim against a patent attorney, substantial issues of patent law will *inevitably* arise in such a case.

## II. PETITIONERS’ CONTENTION THAT THE THREAT OF NUMEROUS STATE COURT OPINIONS INTERPRETING PATENT LAW WILL NOT UNDERMINE THE CONGRESSIONAL GOAL OF UNIFORMITY IN PATENT LAW IGNORES THE REALITIES OF PATENT PRACTICE

As both Petitioners (Brief, p. 50) and *amicus curiae* Ronald E. Mallen (Brief, p. 7) note, the number of patent-related malpractice cases has surged in recent years. Mr. Mallen calls it a “dramatic increase.” This deluge of legal malpractice cases involves precisely an area that Congress has carefully and deliberately allotted to the expertise of federal courts. There is more than “some” federal interest (Petitioners’ Brief, p. 38) involved; Congress expressed a strong federal interest in patent law uniformity, as manifested by Congress’s decision to give the Federal Circuit exclusive appellate jurisdiction over cases arising under § 1338.

Congressional intent as to uniformity in patent law would be defeated if each state's courts, in the ever-increasing numbers of malpractice actions, were allowed to determine what claims would be patentable under federal patent law. The patent attorney's job on behalf of his or her client seeking a patent is to negotiate with the USPTO's patent examiner over the scope of claims that the patent examiner deems are allowable over the prior art, since patent law strikes a balance between rewarding innovation while at the same time not allowing an inventor to claim "[what] is already available to the public or that which may be readily discerned from publicly available material." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150, 109 S. Ct. 971, 977 (1989).

If, as to a given patent application, certain claims are disallowed by the examiner, and certain claims are allowed, the patent lawyer then has to apply his or her judgment to determine whether the allowed claims' coverage is acceptable for the client, or whether the allowed claims are so narrow that the expense and delay of an appeal is advisable as the better option. The "hypothetical claim" argument thus raises the question of whether a patent lawyer should pursue to the utmost *every* possible permutation of a patent claim up through the appeal process out of fear of second-guessing later by a state court. In other words, a malpractice case based on a "hypothetical" claim requires a court to determine whether the patent attorney, in light of governing federal patent law, exerted ordinary effort and skill in obtaining a particular result from an agency of the federal government, the USPTO. Relegating malpractice cases to 50 state court systems is obviously ripe for

conflicting decisions establishing conflicting standards of care applicable to attorneys practicing before the USPTO.

In an attempt to counter the strong federal interest in uniformity in patent practice, Petitioners invoke “important state interests in the regulation of lawyer conduct” (Petitioner’s Brief, p. 42), but Petitioners’ generalities are inconsistent with the specific and unique realities of patent law and practice. It is long been the rule that practice and attorney conduct in front of the USPTO are governed by federal law. “The standards for practice before the PTO are governed by federal law, as both the Supreme Court and we have previously recognized.” *Carter v. ALK Holdings, Inc.*, 605 F.3d 1319, 1324 (Fed. Cir. 2010) (citing *Sperry v. Fla.*, 373 U.S. 379, 385-86, 83 S. Ct. 1322, 1326 (1963)). State courts have never had an interest in policing patent practitioners or in establishing the standard of care in prosecuting patent applications, drafting claims, and negotiating patentable claim scope with USPTO patent examiners. *Cf. Sperry*, 373 U.S. at 384-85, 83 S. Ct. at 1325-26. However, under the jurisdictional rule advocated by Petitioners, a patent attorney’s conduct, and how he or she proceeds with a patent application, would be largely governed by what the state court systems in the states in which he or she practices say about claim construction, patentability, and the standard of care before a federal agency applying rules promulgated by that agency.

Petitioners assure this Court (Petitioners’ Brief, p. 51) that “if a state court erred in deciding such a hypothetical patent issue, that decision would not be binding on any federal court in any subsequent true



patent proceeding.” Petitioners’ assertion ignores the practical reality of *stare decisis* in state courts. The resolution of the hypothetical claim issue, involving highly disputed areas of federal patent law such as claim construction and obviousness, will affect future state court rulings, since state courts will be bound to follow their own precedents on patent law matters. Practitioners’ conduct will then be guided, out of a sense of self-preservation, by those precedents. Furthermore, in a malpractice case removed to federal court on diversity grounds, the district could be faced with a body of state law interpretations of federal patent law that conflicts with governing Federal Circuit law. While the district court would be bound to follow Federal Circuit law (*Grantham v. Avondale Indus., Inc.*, 964 F.2d 471, 473 (5th Cir. 1992) (it is “beyond cavil that we are not bound by a state court’s interpretation of federal law regardless of whether our jurisdiction is based on diversity of citizenship or a federal question”)), the conflict would increase uncertainty and encourage forum shopping.

Petitioners’ blithe assertion (Petitioners’ Brief, p. 51) that “allowing the state courts to decide hypothetical patent issues will not unduly threaten the uniformity of patent law” and will have a “negligible impact” (*id.* at 52) ignores practical realities. Petitioners cite (Brief, p. 52) the example of the *New Tek* cases (*New Tek Mfg. v. Beehner*, 702 N.W.2d 336 (Neb. 2005); *New Tek Mfg. v. Beehner*, 751 N.W.2d 135 (Neb. 2008)), in which the trial court held a full-blown *Markman* hearing and entered an order construing patent claims. Petitioners note (Brief, p. 53), that “in the time since not a single court has cited the *New Tek* opinions on an issue of patent law.” More to the point,



however, is the fact that in *New Tek* the trial court's claim construction was not reviewable by the Federal Circuit, in contrast to claim construction rulings by federal district courts, which, consistent with the Congressional scheme, are appealed to a single federal appellate court, which can and does reverse district courts' claim constructions. The WHE case is instructive. In the underlying patent infringement case, the district court granted summary judgment based on its construction of the word "surface" in the phrase "generally planar surface." *Byrne v. Black & Decker Corp.*, 235 Fed. Appx. 741, 745-46, (Fed. Cir. 2007). On appeal, the Federal Circuit held that the district court erred, yet the Federal Circuit affirmed the judgment on the basis of the Federal Circuit's own construction (review of claim construction is *de novo* (*Cybor Corp. v. FAS Techs.*, 138 F.3d 1448, 1454 (Fed. Cir. 1998)) of the words "generally planar." *Byrne v. Black & Decker*, 235 Fed. Appx. at 746. In the subsequent legal malpractice lawsuit, WHE's former client is arguing that WHE could and should have persuaded the PTO to issue a claim without the "generally planar" language that the Federal Circuit found case-dispositive.

A rule that allows these cases to proceed in state court will incentivize unhappy plaintiffs who at first did not succeed in patent infringement cases to sue their patent counsel. As in *Byrne*, the plaintiff could use the Federal Circuit ruling as a blueprint to craft with 20/20 hindsight a hypothetical claim that, allegedly, would have succeeded in the infringement lawsuit if his patent counsel had obtained it from the USPTO at the time of prosecution. The plaintiff could proceed with re-trying the lawsuit secure in the

knowledge that, unlike in the prior patent infringement litigation, the claim construction and infringement issues in the second lawsuit would be decided by a court lacking experience in patent law (as Petitioners concede, "state courts typically do not have much experience deciding patent matters" (Petitioners' Brief, p. 51)) and immune from review by the Federal Circuit. Given the increasing number of such cases, that rule would be a recipe for a lack of uniformity in patent law, contrary to Congressional intent.

### III. THE PLAINTIFF'S "CHOICE" OF FORUM INVOKED BY SOME *AMICI* AS A REASON FOR REVERSAL WILL NOT EXIST, REGARDLESS OF THE OUTCOME OF THIS CASE

*Amicus curiae* AIPLA (Brief, p. 26) and Ronald E. Mallen (Brief, p. 4) refer to preserving a litigants' ability to choose a state court forum – the AIPLA even goes so far as to advocate preserving a plaintiff's "right to select a forum." Neither explains how this Court's ruling on this jurisdictional issue could deprive Plaintiff of a choice, and, in reality, it will not.

No one on either side of the jurisdictional question disputes that the federal patent issue in legal malpractice cases arises in the context of state law tort claims. In contrast to, for example, trademark infringement law, where federal Lanham Act claims co-exist with the body of state statutory causes of action and the common law of unfair competition, there is no equivalent federal cause of action for legal malpractice that a plaintiff can choose to plead. If this Court reverses the Supreme Court of Texas, then these

legal malpractice cases can generally be brought only in state court. A possible, rare, exception, would be where a plaintiff's ex-attorney is a citizen of a different state and there is diversity jurisdiction; even in those cases, though, the range of "choice" available to plaintiffs would be severely limited by the ability of the out-of-state attorney to remove the action to federal court under 28 U.S.C. § 1441 (unless a plaintiff, counterintuitively, sued that attorney in the attorney's home state (28 U.S.C. § 1441(b)(2))).

Despite theoretical possibilities of diversity jurisdiction in federal court, this jurisdictional dispute is before this Court not because plaintiffs want the "choice" of state or federal court but because plaintiffs wish to sue in state court. Again, *Byrne v. Wood, Herron & Evans* may be instructive. In *Byrne*, the case was filed in state court, then removed. Although Plaintiff succeeded on the merits of the appeal of a grant of summary judgment (*Byrne v. Wood, Herron & Evans, LLP*, 450 Fed. Appx. 956 (Fed. Cir. 2011)), the plaintiff in *Byrne* nevertheless filed a petition for rehearing en banc that raised the jurisdictional argument and, after the Federal Circuit denied the petition (*Byrne v. Wood, Herron & Evans, LLP*, 676 F.3d 1024 (Fed. Cir. 2012)), petitioned this Court for certiorari (Case No. 11-1497). The only apparent reason that the petitions were filed in *Byrne*, in light of Plaintiff's complete success at the Court of Appeals level in obtaining reversal of the order of summary judgment, is that Plaintiff's counsel prefers state courts.

Plaintiffs' lawyers in general will want to file only in state court due to the uncertainty caused by judges

who do not know patent law and state court juries who favor local plaintiffs. Uncertainty of course can be a tool to induce settlement, which will then encourage the upward trend in these cases to continue. Rather than preserving some non-existent "choice," a ruling in favor of Petitioners will encourage a cottage industry of suits against patent attorneys, adding to the turmoil, expense, and uncertainty for patent attorneys practicing before the USPTO.

### CONCLUSION

A plaintiff must bring his or her patent infringement action exclusively in federal district court, which must construe the claims, and rule on obviousness and patentability of the claims; those rulings are reviewable exclusively by the Federal Circuit. If the plaintiff loses the case, he or she may, as many plaintiffs do, promptly cross the (figurative) street to state court and file an action against the counsel that represented him in the patent infringement case, alleging that but for the attorney's negligence he would have won. The state court, in order to determine causation, must then construe the patent's claims, and rule on obviousness and patentability of those claims, as did the federal court. The "hypothetical" nature of the patent claims and the fact that they are raised in the context of a state-law malpractice action do not change the fact that, from the practitioner's and litigants' perspectives, the case turns on substantial issues of federal law, thus giving rise to federal jurisdiction under *Grable*. Furthermore, allowing these cases to proceed in 50 disparate judicial systems unreviewable by the Federal Circuit is

contrary to the strong federal interest in patent law uniformity. WHE urges this Court to affirm.

Respectfully submitted,

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